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NEWS: INTERNATIONAL

'World's worst central banker' is being seen in changed light, writes John Lloyd

New guise for Russia's great survivor

Russia's top banker is a survivor above all else. Mr Victor Gerashchenko, chairman of the Russian central bank, has seen many efforts to remove him from his post. They have all failed.

Sacked from the chairmanship of the Soviet State Bank after the August 1991 coup because he took advantage of it to try to impose some discipline over the bank's republican branches, he was back in office in under two weeks.

Sacked again when the Soviet Union collapsed in December of the same year, he reappeared as Russian bank chairman by the middle of 1992. He was appointed, ahead of Mr Boris Fyodorov, the former deputy premier for finance, by Mr Yegor Gaidar, then the leader of economic reform in the cabinet.

When Mr Fyodorov took over at the finance ministry he quickly established the sourest relations with Mr Gerashchenko, blaming him for pushing up inflation through giving soft credits to enterprises. Last April, Mr Fyodorov's pressure

was amplified (according to a Russian government adviser) by a request from President Bill Clinton to President Boris Yeltsin at the Vancouver summit that Mr Gerashchenko should go. Mr Yeltsin said, vaguely, he would look into it, and nothing was done.

After another unsuccessful coup in October 1993, Mr Gaidar himself, with Mr Fyodorov, attempted to persuade Mr Yeltsin to fire Mr Gerashchenko, but he withstood the pressure. When resignations did take place in January of this year, it was Mr Gaidar and Mr Fyodorov who left, not Mr Gerashchenko.

Thus the "world's worst central banker", as Professor Jeffrey Sachs has called him, survived to have a joke about the nickname with Mr Michel Camdessus, the International Monetary Fund's managing director, in Moscow last week. Mr Camdessus, buoyed by the conditional agreement he had made with the Russian government to extend it a \$1.5bn loan, complimented the central bank for its commitment to tight

President Boris Yeltsin arrived home yesterday after a Black Sea holiday that provoked a rash of rumours about coup plots and his falling health. AP reports from Moscow. In an interview published in the newspaper *Izvestia* on Saturday he condemned what he called the "rich brew of lies, meanness and greed". Even his normally reticent wife, Naina, was quoted in the press.

Mr Yeltsin's two-week absence from the capital provided a field day for speculation about everything from the president's bad back and his heart to his drinking habits and his liver. Aides were forced to issue frequent denials that Mr Yeltsin was at death's door.

monetary policies, and to reform.

Has Mr Gerashchenko gone from the worst to, if not the best, at least the good? "If he has indeed reined in the credits as much as is claimed in the first quarter, then it is a change," said a western central banker last night. "He has personality and clout." He has a reputation for being a tough negotiator, and he has always been the need to keep money circulating. Even his detractors say

finance ministry has been as active in printing money as Mr Gerashchenko. In order to cover government budget deficits, they admit, too, that the chairman has been between a rock and a hard place - that is, caught between fuelling inflation and causing bankruptcies and unemployment.

The case against him is and has always been that, in advancing soft credits, he has prevented industrial restructuring. Now, however, Mr Camdessus at least seems satisfied that he is running a credit policy tighter even than that which the government recommends. But senior officials

from the Group of Seven industrial countries believe there are good reasons of *realpolitik* for that.

First, Mr Victor Chernomyrdin, the prime minister and Mr Gerashchenko's protector against all removal attempts, is now concerned at least to appear to run a tight policy. Three weeks ago, he berated Mr Gerashchenko in an enlarged cabinet meeting for downgrading the importance of the fight against inflation - a clear enough indication that the protection is, if not removed, conditional.

Mr Chernomyrdin no longer needs Mr Gerashchenko as he did as a counterweight against the cabinet reformers: now the prime minister must himself struggle with the impossibilities of the Russian economy, and needs an ally against inflation, not a stoker of it. Mr Gerashchenko's other great protector, the former Russian supreme soviet, has also gone. The present parliament has less clear powers over his appointment and could in any case choose one of

their number for the job.

Finally, Mr Gerashchenko has changed the bank, especially by bringing in some younger people at senior levels (he has a problem to match their pay with the relatively vast salaries of the commercial banks) and giving them their head. If he is almost certainly not a convert to tight money, he has one of the best senses for where power lies in Moscow, and while the man who runs the government wants to present a monetarist stance to the world, Mr Gerashchenko will oblige.

"He is a patriot in his way," says the government adviser. "He wants the country to remain great, he wants to re-establish links with the former Soviet republics to Russia's benefit and he wants to guard against social explosion. That appeals to Chernomyrdin because he's like that, too."

Mr Gerashchenko, with the unlikely accolade of the central bankers' central banker to add to less complimentary ones, is likely to remain part of the scene for a time yet.

Ukraine voters belie forecasts of poll apathy

By Jill Banashy in Kiev and Layla Bouton in Yalta

More than 60 per cent of Ukraine's electorate had voted four hours before the polls closed yesterday, surpassing the required 50 per cent threshold in the nation's first post-Soviet parliamentary elections.

Voter turnout became a key issue in the campaign, after presidential aides predicted that apathy would make it impossible to elect a workable legislature, enabling President Leonid Kravchuk to introduce direct presidential rule and cancel June presidential elections.

Most of the nation's 450 parliamentary districts are expected to go to a second round on April 10 because an outright majority is needed to win a seat.

Voters in the restive eastern regions came out in large numbers, although it was not clear if they would vote for parliamentary candidates or only cast their ballots in local "opin-

ion polls" calling for closer links with Russia.

The most potentially incendiary of these local referendums was held in the Russian-dominated Crimean peninsula, which went ahead with a poll on independence, despite warnings from Kiev that the Ukrainian government considered the referendum illegal. A strong vote for independence in Crimea, which many Russians consider to be a natural part of their state, could further complicate already tense relations between Ukraine and Russia.

An official in Simferopol, the Crimean capital, was confident that the 50 per cent threshold had been exceeded in the local referendum.

Meanwhile, in Kiev, the elections could play a key role in determining the outcome of a mounting power struggle between the president and parliament. Over the weekend Mr Kravchuk, speaking on national television, said that if the parliament was "not



An elderly Ukrainian woman needs two pairs of glasses to tackle the confusing ballot paper, while President Leonid Kravchuk emerges to cast his vote in yesterday's parliamentary election

full-blooded" - less than a full 450-seat house - he would ask the legislature "to give the president new legislative powers" and cancel presidential elections "so as not to create a vacuum of power".

But, as he cast his ballot yesterday morning, Mr Ivan

Pliushch, parliament's chairman, struck back. He rejected postponement of the presidential ballot and said he was confident the parliamentary elections would produce a working legislature.

Most voters seemed oblivious to battles between their leaders

and used simpler criteria when choosing whom to support. "I guess I'll vote for the youngest," said Mr Andrii Voronko, a 29-year-old electrical engineer, who confessed that he was confused by his ballot paper full of unfamiliar names and birth dates. "They [the younger politicians]

have the energy and aren't screwed up by the old mentality." For a retired publisher, local politics took precedence over national debates. He decided to vote for an former Soviet bureaucrat who had helped him to get a flat years ago.

Revolt by key party shakes Swedes

By Hugh Carnegie in Stockholm

The minority coalition government in Sweden has been shaken by uproar in the small right-wing party that holds the balance of power, just as Prime Minister Carl Bildt is preparing to fight a general election in September.

The New Democracy party late last week declared it would no longer act as "the fifth wheel" under the four-party coalition of the right and centre led by Mr Bildt's conservative Moderate party. This role has underpinned the government since it took office in late 1991.

The New Democrats said they would join the main opposition Social Democratic party and the small Left party in voting next month to abolish a controversial healthcare reform at the centre of Mr Bildt's attempt to streamline and liberalise Sweden's welfare system. Together, the three parties could defeat the government in parliament.

With less than three months to go until parliament is dissolved before the election, a change of government is not being discussed. A deep split in New Democracy, whose leader Mr Ian Wachtmeister announced his resignation a few weeks ago, has left in doubt the willingness of all its parliamentary members to follow the new party line.

Mr Bildt's room for manoeuvre has been narrowed, particularly over healthcare reform. A move now being implemented, to let Swedish family doctors set up private practices outside direct local authority control, and to let Swedes choose their family doctors, could be stopped next month. The momentum of Mr Bildt's efforts to break down welfare state monopolies and introduce more competition seems likely to be halted.

Opec's heavyweight controls the ring

Robert Corzine on how the Saudis foiled a move to cut production

One member, one vote is the rule within the Organisation of Petroleum Exporting Countries. But if there is a difference of opinion it helps to have the world's largest oil reserves and a third of Opec's total production on your side.

On Saturday night Saudi Arabia proved again that the cartel can act only with Riyadh's active co-operation. Its decision not to take part in a proposed production cut to bolster weak prices put paid to a scheme being promoted by many of its Opec colleagues. And it was made in spite of dire warnings from the secretariat that such a course could trigger a further collapse in the price.

The Opec communiqué stressed the group's unanimous agreement to adhere to the extension to the end of the year of the present 24.52m barrel a day production ceiling. But the rhetoric did little to hide the dissatisfaction of some member states, all of which are struggling to cope with a fall of more than 30 per cent in oil prices over the past year.

"There was a possibility of a very substantial achievement and success which we let slip through our hands," said Mr Gholamreza Aghazadeh, Iran's

oil minister. He noted that Iran, one of Opec's most populous and poorer states, had lost \$3.5bn (£2.39bn) in oil revenues in the six months since the organisation's decision to set the present production ceiling.

But Saudi Arabia's suggestion of a 1.4m b/d cut did not even make it to the formal proposal stage.

Nigeria, another poor and populous member, did manage to present formally a complex proposal for a 6 per cent cut. But it died a quick death before a final meeting confined to the 12 oil ministers.

A similar fate was in store for an Indonesian plan to cut to 23.5m b/d the ceiling set last March, which was rarely respected because of widespread quota cheating by some Opec members.

There was no need to propose the rollover, according to Mr Subroto, Opec secretary-general, because there was no other option left. The only issue was its duration.

An Opec official said the line taken by Mr Hisham Nazer, the Saudi oil minister, was simple: "If you think a cut is the best way forward, then go ahead." But Saudi Arabia was not about to be easily moved off its 8m b/d quota, say analysts, and without Saudi participa-

tion there could be no reduction that would be credible to world oil markets.

Riyadh's reluctance to lower output may appear counter-productive at a time when it, too, is under severe financial strain because of falling oil revenues. But Saudi Arabia has been equally reluctant to have its policy dictated by the short-term volatility of oil markets.

It also harbours doubts about the effectiveness of even a large production cut. The country has steadfastly adhered to its quota, but it fears other Opec states would take advantage of any price rise that a cut might trigger by cheating on theirs.

In addition, Saudi Arabia was the only Opec member to agree to a reduced quota at the beginning of last year and it, along with the United Arab Emirates, did not take part in last September's round of quota increases.

The possibility that non-Opec producers such as Britain and Norway would make up for any shortfall that an Opec cut might create was another factor in Saudi thinking.

So, too, was the belief that demand will improve significantly in the second

half of the year. It is a view shared by many analysts.

"There could be a sudden increase in price by the fourth quarter," according to Mr Leonidas Drollas, economist at London's Centre for Global Energy Studies. He believes that by then, the Opec basket, the average price of seven crude oils, could rise by about \$3 to \$15.

Analysts were also generally positive about the length of the rollover. Mr Vahan Zanyan, an analyst with the International Petroleum Finance Company in Washington, said "refiners should be more eager to buy if they know there is no more Opec production coming in the fourth quarter", when Opec's output tends to rise to meet high winter demand.

Saudi Arabia also controls most of the excess oil production capacity in the world, so it would not be easy for other Opec or non-Opec producers to take advantage of any price rises later in the year.

The Saudis also have the financial means to cushion the short-term price falls which Opec ministers concede are likely to accompany the current strategy. It is less certain whether their less well-off colleagues can stand the pain which the next six months may bring.

French airline sets deadline for its unions

By John Riddling in Paris

Air France's 14 trade unions have until Thursday to agree to a restructuring plan aimed at curbing losses at the French state-owned airline, the company said yesterday.

The statement followed protracted negotiations at the weekend between the unions and Mr Christian Blanc, chairman of Air France.

Mr Blanc has insisted on staff support for his recovery plan, which is a condition of a capital injection of FF20bn (£2.3bn) from the French government. He has said he will appeal directly to the company's 40,000 employees if any of the unions refuse to agree to the restructuring.

The communist-led CGT walked out of the negotiations, which started on Saturday morning and lasted until 5am yesterday. A spokesman for the union said it opposed elements of the plan, including an increase in working hours from 38 to 39 hours per week for ground staff and the implementation of 5,000 job cuts.

The CGT said it was seeking

further negotiations and would consult its members to decide a final position before a meeting with other union groups on Thursday.

The airline's other unions declined to comment yesterday on the progress of negotiations. But Force Ouvrière, the largest union at Air France, has previously indicated support for the rescue plan.

Union opposition and a series of violent strikes forced the withdrawal of a previous recovery plan last October and the resignation of Mr Bernard Attali, then chairman. The episode represented a serious blow to the centre-right government of Mr Edouard Balladur, which was forced into a damaging climbdown.

In addition to voluntary job cuts, Mr Blanc's plan includes a three-year wage freeze and a reduction in the airline's fleet from 166 aircraft to 148 over the next five years. Air France says that the measures are vital to stem losses estimated at FF7.5bn last year and to win European Union approval for the capital increase from the French state.

Local government elections

Coalition's grip grows tighter

By John Riddling

France's governing centre-right coalition last night appeared set to strengthen its grip on local government following the second and final round of voting in regional council elections.

After a strong showing in the first round on March 20, the RPR-UDF coalition headed by Mr Edouard Balladur, the prime minister, was well placed to win control of up to eight departments, adding to the 75 of France's 95 departments it already held. The opposition Socialist party, which suffered a crushing defeat in last year's general elections, was well placed to win four more departments.

A strong performance is important for Mr Balladur, who has seen his personal popularity decline steadily since the beginning of the year and who is currently confronted by a powerful challenge from the country's student movement. Tens of thousands of students have taken over the streets over the past few weeks to protest against a law which allows young apprentices to be paid less than the minimum wage.

A survey published yesterday by the BVA polling institute found 64 per cent of voters wanted the law repealed. But analysts said the issue might not have a big impact on the regional elections.

These elections, which represented the first significant test of the government's support since it took office in March last year, concerned the 1,372 districts in which there was no outright winner in the first round. The seats involved were last contested in 1988, when the Socialist party recorded strong gains.

The 95 *conseils généraux* are an important part of France's structure of local government. Their responsibilities include the management and development of public services, such as transport and health care, outside urban areas.

In the first round of the regional elections, the RPR-UDF coalition won 44.7 per cent of the vote, compared with 28.7 per cent for the Socialists. The extreme right National Front won about 10 per cent of the vote, with the ecologists suffering a sharp fall in support to just over 2 per cent.

Karadzic warns of Moslem offensive

The Bosnian Serb leader, Mr Radovan Karadzic, accused Moslems yesterday of having launched a new military offensive. He warned them to stop it or risk losing territory they might have recovered by negotiations. Renter reports from Belgrade.

Mr Karadzic told a meeting of his Serbian Democratic party, in the Bosnian Serb stronghold of Banja Luka, a big spring offensive, which he claimed had already begun, must be broken.

"If the Moslems continue this, I will order a counter-offensive and then they will not be able to get territory they might get through political negotiations," he was quoted

by Tanjug news agency as saying. "There is no way anyway that they can get territory on which they are now killing our people," he added.

The Bosnian government-controlled radio has reported that the Moslem-led government army has recaptured some territory from the Serbs around Tesanj and Tuzla in north-central Bosnia. UN officials in Sarajevo said on Saturday there was heavy fighting in the area, but could not confirm reports of Bosnian gains.

Government and Croatian forces are no longer fighting each other after agreement to form a Bosnian Moslem-Croat federation, but the Serbs have refused to join it.

EUROPEAN PRESS REVIEW

FRANCE

The French press is preoccupied with upheaval - both on the streets of the nation's cities and, closer to home, in the newspaper industry itself.

The wave of student demonstrations, which has brought tens of thousands on to the streets in protest at a new law allowing young apprentices to be paid less than the minimum wage, has prompted newspapers to search about the state of society and the potential for an explosion of social unrest.

"Are we experiencing a return to 1968?" asked *Le Figaro* in an editorial, posing the question of the moment. For most of the press, the answer is No, or at least not

yet. But there is high anxiety nonetheless. "The young are angry," proclaims the front cover of *Le Point* magazine. *Le Monde* writes of "a blocked society", while *Ouest France*, one of the largest regional papers, describes a dangerous divorce between politicians and the French people.

There has also been much soul-searching over the future of the press itself. Falling readership, the impact of new publications, and changes in management and ownership have prompted newspapers to reconsider their strategies.

Last week the right-wing *Quotidien de Paris* launched a redesign which effected both presentation and editorial content. Photographs sprung on to the front page and long opinion pieces took a back seat to punchier news items. "There will be no more

grandstanding or pages of debate, because I think people don't read them any more," said Mr Philippe Tesson, manager of the newspaper.

Most significantly, however, the newly-named *Quotidien* cut its price from FF6 (€0.68) to FF4 (€0.45). The move, partly in response to January's launch of *Informatin*, the small-format morning paper priced aggressively at FF3, reflects the emergence of a circulation war in the recession-hit industry.

The turmoil has extended to the loftiest titles. *Le Monde*, a bastion of the traditional French press, is also reviewing its strategy. "To be passive is to be beaten," wrote Mr Jean-Marie Colombani, the newspaper's managing editor, quoting President de Gaulle. Mr Colombani, who took over the top editorial job earlier

this month after the surprise resignation of Mr Jacques Lessourne, has spelled out a policy of change. "The idea of a more compact paper, from Monday to Friday, and a thicker weekend edition, has been raised. But we must also take account of the pricing strategy," he said in an interview with the left-wing daily, *Libération*.

As with the student demonstrations, the common element behind the manoeuvres in the newspaper industry can be traced to the economic environment. Estimates suggest advertising revenues for the national press have fallen by almost 30 per cent in the past two years and are set to decline by 10 per cent this year. The trend, partly the result of a reform of the media

buying system under the previous Socialist government, has been compounded by falling sales resulting from depressed consumer spending.

In many cases the result has been an urgent search for new partners. Earlier this year the Expansion group was rescued by CEP, an investment consortium. Informatin, which has seen its sales slip following a successful launch, is believed to be seeking additional backers.

Amid the turmoil, however, there is also stability particularly in editorial opinion. *Le Figaro*, which has been closer than its rivals to the centre-right government of Mr Edouard Balladur, has been relatively supportive of the prime minister's actions in the face of the student demonstrations.

"One must always be wary of popular anger or public opinion," wrote Mr Franz-Olivier Giesbert in a front page editorial on Saturday. "It is urgent that France accepts a certain number of reforms, in employment, social security and national education."

Not surprisingly, *Libération* sees it differently. "The only intelligent decision which could be taken today by the prime minister would be to withdraw the decree implementing the CIP," it said, referring to the apprentice contract at the centre of the student storm.

It concludes, however, that such a measure is unlikely, given its importance to Mr Balladur's credibility. Upheaval on the streets, and in the press, is likely to continue.

Compiled by John Riddling

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NEWS: INTERNATIONAL

Zeffirelli writes himself into the Italian political scenario

On the eve of Italy's most important general election since 1948, Mr Franco Zeffirelli, film director and would-be senator of the Italian republic, took lunch on the slopes of Mount Etna with members of his entourage and three of his right-hand men.

For a man known for opulent and often controversial stage and cinema productions, it was a suitably lofty viewpoint from which to survey his constituency - Catania, a city of decaying splendour on the east coast of Sicily.

But this is not the image which Franco Zeffirelli the candidate has sought to promote, during an arduous campaign for Mr Silvio Berlusconi's Forza Italia. Indeed, since the media magnate asked Mr Zeffirelli to *scendere in campo* (take to the field) for his new party, the film director has done just that, leaving what he calls the "glass prison" of show business and talking to people in the streets. "I think I'm a much better man for it," he said in an interview with the FT at the weekend.

Catania is a difficult constituency, not least because of the traditional apathy of the electorate in southern Italy, where the turnout is always lower than in the north. Yesterday, Palm Sunday, there was more activity in Catania's churches than in its polling stations, and Sicilian television reported a much lower turnout than in 1992 - although this time all Italians have a full two days in which to vote.

More specifically, the city suffers from a disintegrating infrastructure, and is struggling to shake off a reputation as centre for one of the most powerful Mafia "families", whose head, Mr Nitto Santapala, was arrested last year. A constant theme of the last days of the election campaign was

Andrew Hill has lunch with the great director who is standing in Catania, Sicily, for Silvio Berlusconi's Forza Italia

the question of how the Mafia will vote, with Mr Berlusconi severely criticised by his opponents for not clearly rejecting the support of Cosa Nostra.

Meanwhile, his business lieutenants have been forced to deny allegations by former gang members that Mafia-inspired arson attacks on his new Standa supermarkets in Catania and Palermo in 1990 and 1991 only stopped after pay-offs to the local clans.

Mr Zeffirelli has stepped into this delicate situation as an outsider, albeit one who knows and loves Sicily. His roots are in Florence, and he was also mooted as a Forza Italia candidate for Rome or Venice. But he chose Sicily because he wanted to dispel some of the myths about the island - in particular, its association with the Mafia in the minds of most foreigners - and reassure Sicilians that they, too, are part of the new Italy.

"It isn't the country of 'The Godfather' for god's sake. It's a country of wonderfully creative and beautiful people who want to do the best with their lives," he complains.

He says that, if elected, he would try to restrict himself to certain specific areas of policy, notably helping disabled people and drug addicts, and to resurrecting the cultural life of Italy from what he sees as 50 years of communist-inspired neglect. "I'm not a baby," says Mr Zeffirelli, who is 70. "I want to see things happen now."

Indeed, had he started in politics 20 years ago, and devoted himself to it, one could imagine Franco Zeffirelli as a campaigning minister of culture along the lines of the late Mel-

anger about the way in which the left has recycled itself for this election.

"The old *nomenklatura* are absolutely awful: they just don't deserve to survive," he says, in one of his milder attacks. Mr Zeffirelli is certainly not uncomfortable about the pact between Forza Italia and the far-right National Alliance, particularly important in the south. Indeed, the director says he is "disgusted" by the description of the National Alliance as a neo-fascist party, and describes Mr Gianfranco Fini, the Alliance's politically adept leader, as "the greatest statesman we have".

As for international criticism of Forza Italia, Mr Zeffirelli - used to criticism of the artistic kind - draws a parallel between the new Italian republic promised by Mr Berlusconi and his allies, and the first Florentine republic set up in the 14th century. "They [the Florentines] were surrounded by emperors, popes, dukes and counts, all of whom looked at Florence with fear - and they did all they could to make it fail."

He leaves a dramatic pause and then adds, with that smile: "They finally managed to bring it down - but it took 200 years."

Pay deals below German inflation

By Michael Lindemann in Bonn

About 1.4m German construction workers will receive 2.4 per cent pay rises this year, following a deal agreed on Saturday. The award is the biggest so far this year, but still below forecast inflation of 3 per cent.

The IG Bau union and the industry's two employers' federations have to approve the deal formally by April 20.

About 500,000 workers with specialist qualifications will receive an extra 3 pfennigs an hour, giving them a total rise of 2.5 per cent.

Negotiations in Frankfurt looked likely to fail because of union demands that pay for 375,000 construction workers in eastern Germany should match levels in the west. Under the agreement, eastern pay will reach 90 per cent of western levels from September 1.

The bulk of pay settlements is now out of the way following earlier deals, all below inflation, for engineering, chemical, public sector and bank workers. A pay agreement for about 400,000 print workers is still outstanding.

Bank report sees only 1.6% growth across Union

Germany forecast to hamper EU recovery

By Daniel Green

German economic "stagnation" will hold back recovery across Europe, according to a report published today by Barclays Bank of the UK.

Bonn's problems in the financing of eastern Germany, and a continuing fall in industrial competitiveness, mean that real gross national product growth in the European Union this year will reach only 1.6 per cent, compared with an estimated fall of 0.3 per cent in 1993, the bank believes.

German recovery will be "late, partly because the Bundesbank has adopted a cautious approach to reducing interest rates," says its report. By 1995, GNP growth in the EU will be 2.5 per cent "but this is no more than a return to trend".

The importance of Germany to the health of Europe's economy is, if anything, increasing. "In the past it has been difficult for Europe to stage a robust upswing without Germany," writes the report's author, Mr Nigel Newman, Barclays' senior European economist.

"During the past 10 years Germany and the rest of Europe have become more closely integrated. Faced with a [slow recovery] in Germany, the prospects for the rest of Europe do not look particularly promising."

The result will be a "modest and probably erratic period of recovery" this year.

The state of the German economy is compounded by high interest rates, low confidence, falling employment and "restrictive" tax policies which will continue to hurt demand from European consumers.

Rises in long-term interest rates seen this month could also hinder recovery unless reversed.

The prospects for France, where a "sluggish recovery" is under way, are seen as slightly better than for Germany. But the French trade balance could deteriorate as a result of falling industrial competitiveness as the franc remains tied to the D-Mark in the European monetary system.

Italy's improving competitiveness and exports should mean a significant

recovery this year. "Export growth is leading the upswing, although an end to destocking will also provide support," says the report.

Rising exports should also assist Spain, with higher consumer spending helping.

The forecasts for the UK are optimistic, saying that consumer spending will continue to grow in spite of higher taxes next month. Across the EU, the outlook for interest and inflation rates is viewed by the bank as more promising than for growth.

Inflation will stay just below 1993's 3.4 per cent for the next three years, says the report, while interest rates are forecast to slip from 7.9 per cent in 1993 to 5.2 per cent in 1994 and 4.5 per cent for the subsequent two years.

The scheduled widening of EU membership next January 1 - with the possible arrival as full members of Sweden, Austria, Norway and Finland - will increase the size of the EU by 7 per cent in terms of gross domestic product.

This "should give intra-EU trade a one-off boost in 1994 and 1995," says the report.

NEWS IN BRIEF

'Pollution' bank set for Texas

A new bank created with up to \$3bn (£3bn) in funds to help clean up pollution along the US-Mexican border as part of the North American Free Trade Agreement will be located in San Antonio, Texas, the San Antonio Express-News said at the weekend, Reuters reports.

The North American Development Bank, modelled after the London-based European Bank for Reconstruction and Development aimed at helping eastern European nations, will begin operations on October 1. Mr Nelson Wolff, the city's mayor, told a news conference. He said President Bill Clinton had chosen San Antonio and city officials had been notified of his decision by Mr Lloyd Bentsen, Treasury secretary, and state Governor Ann Richards.

Italian insurance group for sale

The Italian government plans to carry out its next big privatisation at the end of June, with the public offer of shares in the Ina life assurance group, Mr Lorenzo Pallesi, the chairman, said yesterday, writes John Simkins in Milan. He said it was intended to announce the share price on June 25 ahead of the public offer on June 27.

At least 51 per cent of equity in the group, which has £6,000bn (£2.4bn) of annual premiums and 5,700 employees, will be sold and shares will be quoted in Milan, London, New York and possibly Tokyo. Unlike in recent sell-offs of state-controlled banks, none of Ina is so far floated.

China to act over patents

China, embarrassed by US charges of soaring copyright piracy by private and even state companies, said at the weekend that it would host a forum on protection of intellectual property rights, Reuters reports from Beijing. The symposium in May would bring together more than 200 Chinese and foreign experts to discuss strategies for patent, copyright and trademark protection, Xinhua news agency said.

Vice-President Rong Yiren said last week that much needed to be done to improve intellectual property protection in China, whose laws on the issue are less than three years old.

Nuclear power plant fires up

Full-power trial operations have begun in the second reactor at China's Daya Bay nuclear power station near Hong Kong, according to Xinhua news agency, Reuters reports from Beijing. China plans to become within the decade a leading exporter of civilian nuclear technology and an important producer of nuclear power.

Australian challenger wins seat

Ms Bronwyn Bishop, the former New South Wales senator who is considered a potential challenger for the opposition Liberal party leadership, won the Mackellar by-election comfortably at the weekend, writes Niki Tait in Sydney. The victory allows her to move from the senate to the house of representatives, an essential precondition to mounting any leadership bid.

The by-election, in a safe Liberal seat, was not contested by the governing Labor party. Nevertheless, several independents and representatives of minor parties stood against Ms Bishop, and the result was a swing of just over 5 per cent against the Liberal party.

Protesting Kurds leave Mannheim

Up to 10,000 Kurdish demonstrators began pulling out of Mannheim yesterday after German police offered to release detained Kurds if protesters dispersed, Reuters reports.

Police said between 7,000 and 10,000 Kurds had ignored a ban and got past police road blocks to rally in the southwestern city at a wake for two Kurdish women who set themselves ablaze in protest at German arms sales to Turkey. They waved banners charging Bonn with complicity in "Turkey's war of genocide in Kurdistan", shouted anti-Turkish slogans and punched the air with victory signs.

Police used scores of water cannon to try to disperse the protesters.

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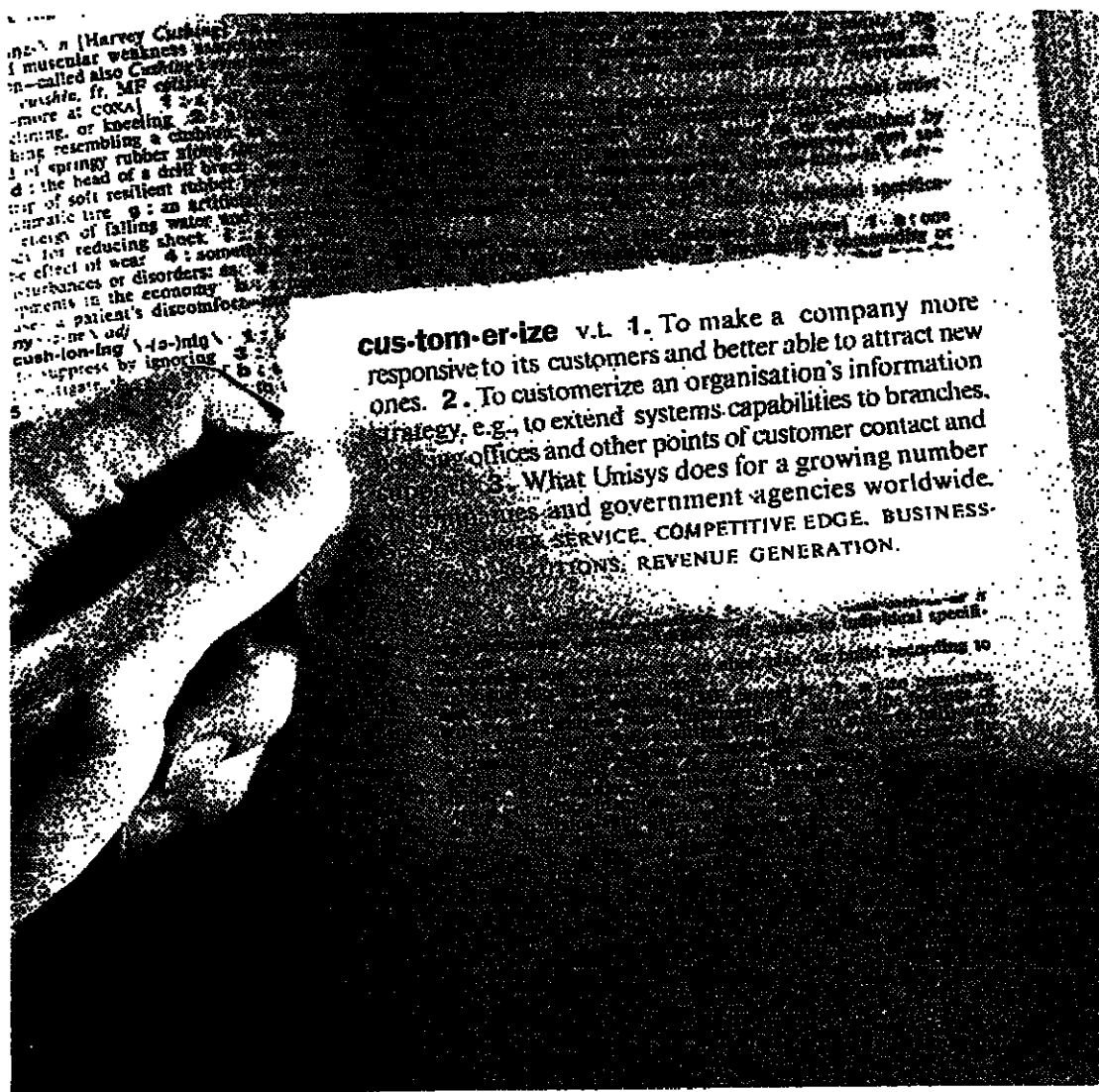
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NEWS: INTERNATIONAL

Securities firms will not need Chinese brokers

Foreigners to join Shanghai exchange

By John Gapper in Shanghai

The Shanghai Securities Exchange is planning to let foreign securities firms become members, under a reform that would eliminate the need for them to trade through Chinese brokers.

The reform, planned for this year, would mark a further step in the liberalisation of China's financial markets, and boost the effort by Shanghai to grow into one of the world's leading financial centres.

Foreign investment banks have been rushing to set up offices in the city, to take advantage of the boom in joint ventures by overseas companies and Chinese enterprises as well as the flow of new equity listings.

Twenty-one foreign securities houses have seats on the exchange and can trade so-called B shares in Chinese companies to foreign investors,

but they are not allowed to be members of the exchange.

This means that they must pay about 20 per cent of their share trading commissions to seven local brokerages which act as partners. Investors buying B shares pay about 0.7 per cent of the value of trades in commissions.

However, officials of the Shanghai exchange are planning to create a new category of "special" membership that would allow foreign firms to operate freely, although without voting rights.

The creation of such membership would mean foreign securities firms no longer having to pay a share of commissions to local brokers.

Ms Li Qian, a director of the exchange's International department, said that some local brokers were unhappy about the plan, but the exchange believed it was a necessary step in the market's liberalisation.

"The local brokers do not agree, but we have to take the long-term view for the development of the exchange," she said.

Barings, the British merchant bank, opened an office in Shanghai last week and other UK securities houses are following their lead. US banks have been increasing their strength in the city.

Foreign brokers have been pressing for the unification of the B shares with the A shares that only Chinese investors can buy.

Foreign companies have also expressed interest in secondary listings on the Shanghai exchange.

The exchange has grown rapidly in the past two years, reaching a total market capitalisation of \$40bn last year. The exchange estimates that about 5m people now hold share accounts at the Shanghai exchange.

Recession hits groups in Europe

By Paul Abrahams in Tokyo

Japanese companies manufacturing in Europe were badly hit by the recession last year and their poor performance has led to a sharp fall in their investment plans.

More than half the 728 Japanese manufacturing groups in Europe say they lost money last year and the operating results of 47 per cent of them deteriorated, according to a survey conducted by the Japan External Trade Organisation.

The study showed that 83 per cent of companies had been hurt by the recession in Europe. More than a third had dismissed employees, scaled back their manufacturing plans or abandoned intended investments. Only 45 per cent of them intend to increase their investment, compared with 68 per cent in 1992.

The UK remained the most popular location for new Japanese manufacturing investment, with nine companies

	JAPANESE MANUFACTURERS BY COUNTRY*									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
UK	32	53	68	91	129	175	189	197	206	
France	30	33	33	61	89	106	115	119	121	
Germany	35	46	54	65	87	99	106	108	106	
Netherlands	16	20	19	27	33	36	44	46	45	
Belgium	15	18	19	23	25	32	38	38	40	
Luxembourg	0	0	0	0	2	2	3	3	3	
Ireland	11	10	12	19	22	26	30	30	31	
Spain	22	23	33	41	54	64	63	63	64	
Italy	8	11	15	24	28	36	45	45	52	
Finland	2	2	2	2	4	4	4	5	5	
Norway	2	2	2	1	0	0	1	1	1	
Sweden	1	1	3	6	5	8	9	9	10	
Denmark	2	2	2	2	3	3	3	3	3	
Austria	2	5	5	7	12	14	15	17	17	
Portugal	7	6	6	7	13	13	13	12	12	
Switzerland	0	1	1	4	5	7	7	9	8	
Greece	4	4	4	4	3	3	3	3	3	
Iceland	0	0	0	0	1	1	1	1	1	
Total	189	243	283	404	516	620	689	709	728	

*Including independent R&D facilities.

Source: Japan External Trade Organisation

ment, with nine companies setting up operations there, making a total of 203. Italy enjoyed the next largest increase, up seven to 52 companies. An additional two groups located in France, the second most popular country with 121 Japanese groups.

However, Germany registered a fall, down two to 106, the first decline there since the survey began in 1983. The Netherlands also lost one company, leaving 45 groups there.

The survey showed most Japanese companies believed they were benefiting from the single European market. Only 4 per cent viewed integration as negative. More than 62 per

cent said customs procedures had been simplified, while 52 per cent reported their markets had grown, and 46 per cent had profited from lower distribution costs. However, 40 per cent said integration favoured European companies more than Japanese groups.

More than 70 per cent of the companies polled said they obtained more than half of their parts or raw materials locally. This was partly because of the strength of the yen, and partly a fall in the prices of locally produced materials. About 57 per cent of Japanese companies had appointed a European as a director or in a higher post.

Coca-Cola faces Tokyo penalty tax

By Emilio Terrazono in Tokyo

The Japanese tax authorities have charged Coca-Cola Japan, a subsidiary of the world's largest soft drinks company, with a penalty tax bill of ¥15bn (\$96m) for improper income transfers.

The country's National Tax Administration Agency has ruled that ¥36bn in brand and marketing royalty payments, which Coca-Cola transferred to its US parent during the three years to March 1992, were too high. It has demanded an extra tax payment.

Coca-Cola said the decision would not affect its earnings prospects, due to likely tax reductions in the US, but it made clear it would reject the demand. Mr Rōi Suzuki, president of Coca-Cola Japan, said the royalties were based on the immeasurable value of Coca-Cola's trademark and were fair and reasonable.

The Japanese decision comes amid rising anxiety over the US government's moves to tighten its tax grip on foreign multinationals operating in the US.

Tax authorities there have claimed that multinationals often abuse international transfer price rules which state that goods and services sold from one group company to another should be priced as though sold to any outside company.

By setting higher or lower transfer prices, multinational companies, including Japanese vehicle and electronics makers, are accused of shifting their US profits abroad to avoid US taxation.

In 1992 the US Internal Revenue Service ruled that Kawasaki Heavy Industries had been avoiding US taxes and charged it ¥1.2bn. Last year Nissan Motor paid ¥17bn in penalty taxes.

S Korea leader treads carefully in China

Tony Walker reports on Kim Young-sam's plea for Beijing pressure on Pyongyang

South Korean President Kim Young-sam will today become the second regional leader in a week to urge China to exert pressure on North Korea to open its nuclear sites to international inspection.

But Mr Kim, who arrived in Beijing yesterday, is likely to advocate a more patient approach than did Japan's prime minister, who last week told Chinese leaders of Tokyo's "grave concern" at Korean developments and warned of UN Security Council action.

Even so, South Korea's president will seek to impress on Chinese officials the gravity of the situation after decisions by Pyongyang and Seoul to put their armies on high alert. The US is also taking steps to bolster its military presence in the region.

Mr Kim is due to meet Chinese President Jiang Zemin today and Premier Li Peng tomorrow to discuss North Korea. This will be the South Korean leader's first visit to Beijing as president.

Mr Han Sung-joo, South Korea's foreign minister, said yesterday, before leaving Seoul for Beijing, that the Security Council should allow more time for North Korea to live up to its obligations under the Nuclear Non-Proliferation Treaty.

He said a statement from the Security Council president would be desirable rather than a formal resolution urging



Kim Young-sam is greeted yesterday by well-wishers at Beijing airport

Pyongyang to open its sites to International Atomic Energy Agency (IAEA) inspection. "It could be better that a statement be issued to induce the North Koreans to come forward for a dialogue. If North Korea continues not to allow nuclear inspections, even after the statement is issued, then China cannot but go along with UN resolutions."

South Korea's approach matches that of Beijing, China, as one of the five permanent members of the Security Council, is anxious to avoid, at this stage, a vote on a formal resolution about its ally, North Korea.

The US has been circulating a draft resolution warning of further unspecified action if North Korea fails to adhere to

its NPT obligations. It recommends that Pyongyang be given a month in which to co-operate with the IAEA. The US is reported to have said that it might go along with the approach advocated by China providing it was clear that economic sanctions will be considered if North Korea fails to comply.

China has made no secret of its concern that it might face unpalatable diplomatic choices over the Korean issue. Chinese officials have ruled out support at this stage for economic sanctions and have criticised a decision by the US and South Korea to resume joint military exercises.

Mr Wu Jianmin, foreign ministry spokesman, said last week China was "not in favour of any action detrimental to stability [on the Korean peninsula] such as military exercises".

He also made clear at a news briefing that China believed it would be dangerous to push North Korea into a corner. Chinese officials have been suggesting that the US consider moves towards diplomatic relations with Pyongyang as a way to defuse the crisis.

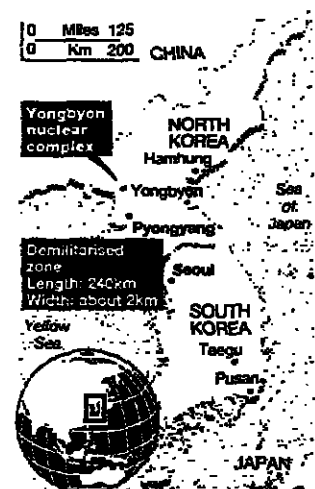
China wants to try to forestall punitive economic sanctions under which it might be obliged to cut off petroleum and food supplies to North Korea. That would be almost certain to cause a deep rupture in relations.

The South Korean foreign minister will fly to Washington from Beijing this week for talks with Mr Warren Christopher, US secretary of state, and Mr William Perry, US defence secretary.

Mr Perry said at the weekend that he had ordered the US air force to add to its stockpiles of munitions and spare parts in South Korea. He was also deploying new Apache attack helicopters - used devastatingly against Iraqi tanks in the Gulf war. The secretary told reporters in Washington that his department planned "to take every step we can so that our tactical air could be applied in a day or two or three, rather than a week or two or three".

The US, which has 36,000 troops based in South Korea, has been enhancing that country's defences, including the deployment of Patriot missiles against any Scud missile attacks.

North Korea, which has some 1m men and women under arms, has stepped up military drills and issued bellicose threats. It has also intensified propaganda broadcasts calling for the overthrow of the Seoul government.



Mr Han Sung-joo, the South Korean foreign minister, said at the weekend that his country would support the UN Security Council's issuing a statement on the North Korea nuclear problem rather than taking the tougher action of adopting a resolution on the matter, writes John Burton from Seoul.

He explained that this strategy would persuade China to support a resolution criticising North Korea if it still continued to block international nuclear inspections after the statement was issued. "I believe that it's advisable to start with the council president's statement so that a resolution can be adopted unanimously," he said.

South Korean President Kim Young-sam will mix business with diplomacy during his visit to China, hoping to win new orders for Korean companies. Economic issues that will be discussed include the Chinese purchase of Korean telephone exchanges and a proposed Sino-Korea project to develop and market mid-sized commercial airliners.

Seoul calm while world media panic

By John Burton in Seoul

"I don't worry about a war breaking out," said Ms Choi Kwang-hum as she peered from the observation deck of Seoul Tower at the city that North Korea recently said it would turn into "a sea of fire".

Ms Choi, a housewife in her mid-forties, and most of the city's other 10m residents appear calm in spite of the threats of war traded between North and South Korea over the past week.

Although the subject of war has become a dominant topic of conversation, it has had little effect on life in the sprawling environs of Seoul, only 35 miles from the North Korean border. There are few, if any, outward signs of preparations for an emergency.

Indeed, it is the rest of the world that seems more concerned over a possible military attack from the North. Panic selling of Korean stocks by foreign investors helped cause the bourse's general index to fall by 2.3 per cent last week.

Hotels are reporting cancellations by overseas tourists, causing a pull on what has been proclaimed as "Visit Korea Year".

"The general feeling among many Koreans is that the crisis is the result of international media hysteria," said one US-educated Korean businessman. The relaxed attitude displayed by South Koreans reflects that the country has lived with a threat from the North for 40 years, with tensions rising and falling regularly.

Koreans have also developed a fatalistic attitude after a century of invasions and political upheaval.

But there are clear generational differences in reactions. Middle-aged Koreans, who grew up with the Korean War of 1950-53 and remember UN troops saving their destitute country, believe that international support will resolve the dispute this time. "I believe the US and the UN will prevent a war from happening," said Ms Choi.

But younger Koreans, whose national self-confidence has grown with the country's rapid economic progress, blame the US for aggravating tensions by deploying US Patriot missiles.

They are also more sceptical about the seriousness of the threat that the North poses. "The former military governments used to use the North Korean threat as a justification for keeping the people under authoritarian control," said one student. "Conservative hardliners may be using this to assert their power once again by giving maximum publicity to war-like statements from the north."

There is also a sharp divide in reactions among Seoul's foreign expatriates. "The old-timers are taking this in stride, while the newcomers are ready to pack their bags and leave," said Mr Alan Plumb, the long-time head of the Rolls-Royce office in Seoul.

When a London broker recently rang in the middle of the night to ask about rumours that war was about to break out, "I couldn't get back to sleep," confesses Ms Anne Lowell, an analyst for Baring Securities in Seoul.

Discussions among foreigners have focused on evacuation plans if the North Koreans invade.

Those who live on the trendy south side of the Han River, which divides the city as the Thames does London, count themselves lucky since it would be easier to flee.

Those living north of the river worry about the destruction of river's 19 bridges that would leave them trapped. The evacuation procedures drawn up by the US military to get foreigners out of the city did not inspire confidence. Foreign citizens would have to gather at the big US military base at Yongsan in central Seoul, considered a prime target for North Korean Scud missiles and artillery.

They would then leave the city by bus, a formidable feat at the best of times, given Seoul's notorious traffic jams. "Personally, I'm relying on a good pair of trainers instead," said one US official.

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Goldstar electronics deals

The South Korean electronics company Goldstar has signed two contracts involving \$159.5m (£109.2m) to produce television parts, video-cassette recorders and video cameras in China, an official report said. AP-DJ reports from Beijing.

Goldstar said the contracts signed on Friday represented the biggest overseas investment by a South Korean electronics company.

It is negotiating to set up joint-venture projects to manufacture audio equipment and

air conditioners.

Goldstar entered a \$19.5m co-operation deal with Shanghai Tape Recording Equipment Factory to produce VCRs and video cameras. The other contract was for a \$140m venture with Shuguang Electron Group.

HK plan to increase disclosure

By Louise Lucas in Hong Kong

The Hong Kong stock exchange has taken a further step towards adoption of international standards with the release of a consultative paper proposing full disclosure of directors' salaries and calling for an end to the practice of "hidden" reserves.

If passed, the changes to the listing rules would open up directors' remuneration to full scrutiny. Companies would be obliged to list directors' fees, basic salaries plus bonuses, housing allowance and benefits in kind, pension scheme contributions and golden hellos and goodbye.

The stock exchange is also getting tough on banks, insurance and shipping companies which are currently allowed to maintain "hidden" reserves.

Poor nations seek closer co-operation with G7

Fifteen poor nations with large markets plan to seek better economic deals from industrialised nations at a three-day summit that begins today in New Delhi, reports AP.

Police went on alert yesterday as heads of state of eight countries of the Group of 15 began arriving. The other countries are represented by government ministers or senior officials.

About 7,000 policemen ringed many buildings in the city where the meetings will be held.

Member countries from Asia, Africa, Latin America and the Caribbean will seek closer co-operation with the Group of Seven of the world's largest industrialised nations: the US, Canada, Italy, France, Germany, Japan and Britain.

"We collectively represent a GDP of \$1,400bn. Our total

trade turnover is \$404bn," Indian foreign minister Dinesh Singh told the meeting that was drafting a communiqué to be adopted at the end of the summit.

The developing countries hope to have greater bargaining power with rich nations by pooling their natural and human resources.

Apart from the host, India, presidents or prime ministers of Nigeria, Senegal, Zimbabwe, Argentina, Indonesia and Malaysia are taking part in the conference. Mexico, Chile, Peru, Venezuela, Algeria, Egypt, Brazil and Jamaica are sending representatives.

Critics of the G-15 say that, during the five years since it was created, the organisation has lost much of its significance as many of the members prefer to line up with regional trading blocs. The preference

for such arrangements is underscored by poor attendance at the meetings.

Others, however, maintain that the group is still relevant. "The industrialised countries will make poor nations do what they want. The only way out is for the less powerful countries to get together," said A.P. Venkateswaran, a former external affairs secretary for India.

The conference is unlikely to force richer countries to relax import quotas on merchandise such as textiles or to retain their subsidies on food exports to poor countries under the new General Agreement on Tariffs and Trade.

Many poor nations say that, under GATT rules, they will have to pay royalties for products that used not to entail patents under intellectual property rights.

Burma loosens bank rein

Burma will allow locally owned private banks to operate with foreign exchange from next month, officials said at the weekend, Reuters reports from Bangkok.

The move is to encourage investment, in line with Burma's attempts to open the national economy.

Local private banks, under a new regulation issued by the central bank, would be able to operate foreign exchange from Friday, they said. "The regulation is to implement the policy of economic openness for the country."

The officials said private banks had been allowed to operate in Burma for the past two years. Locally owned private banks were now allowed to deal only with local currency.

California faces economic aftershock

George Graham assesses Barclays' tax suit as it reaches the US Supreme Court today

Barclays Bank will have its chance today to argue in the US Supreme Court its 17-year-old case against California's unitary tax system.

The British banking group, backed by an array of European governments and multinational corporations, complains that the unitary method of assessment, by which California calculates tax on a proportion of a group's worldwide income, unfairly taxes profits earned outside the state, and even outside the US.

The nine justices of the court are to hear arguments on the Barclays case, with a similar case brought by Colgate-Palmolive, the household products group, which challenges the application of unitary taxation to US-owned groups.

For California, which tips along the brink of bankruptcy year after year, the stakes are high. If it were to lose the Barclays case, it would have to refund to the bank and other foreign groups about \$400m (\$287m) it has already collected, and cancel another \$400m it has assessed but not yet collected. If, on top of that, it were to lose to Colgate, it would have to refund another \$1.3bn and cancel \$25m more in assessments.

Mr Brad Sherman, chairman of the state Board of

Equalisation, an elected tax commission, says losing the \$4.1bn at stake would be "an economic aftershock rivaling the damage done by the southern California earthquakes".

For foreign companies the issue is less financial, since

costs them more, because of their emotional opposition to the concept of worldwide combination," said Mr Michael Lippman, partner for state and local tax issues at KPMG Peat Marwick, the accounting group.

International tax treaties are

"Our current system is a huge bureaucracy that can't keep up with sophisticated multinationals that juggle income and avoid paying billions that should go to the US Treasury," he said.

The Supreme Court ruled in 1983, in the Container Corpora-

tion case, that California's unitary system was legal when applied to US companies, but it expressly set aside the question of whether that could be applied to foreign businesses.

The essence of the Barclays case is that unitary taxation, because it conflicts with the arm's length principle preferred in international tax treaties, interferes with the federal government's right to speak for the US with a single voice on international commerce and is therefore unconstitutional.

California responds that Congress has made its will very clear by refusing many opportunities to pass a law to ban unitary taxation by the states. Colgate's case is that to

built on the principle of arm's length taxation - a company's income on transactions with its parent and subsidiaries is assessed as though it were trading at arm's length with an independent company.

Many US states, and some members of Congress, complain that this is impossible to calculate and allows multinationals to manipulate the transfer prices on transactions within the group so as to reduce their tax.

Senator Byron Dorgan last week persuaded the Senate to pass a non-binding resolution in favour of unitary taxation, which uses a simple formula to calculate how much tax is owed in each state or country.

On the other side, Justice Harry Blackmun was the lone dissenting voice last year in a case lost by Intel Corp against a Tennessee state tax. Judge Blackmun argued strongly against interpreting congressional silence as assent.

The loneliest person in the court may be Mr Drew Days, US solicitor-general, who has the unenviable task of sustaining a campaign promise by President Bill Clinton, supports California, while not wholly repudiating the Justice Department's earlier briefs filed in support of Barclays.

Washington lawyers expect the justices to question Mr Days harshly over this intellectual juggling act.

Factions struggle over candidacy in Mexico

By Damian Fraser
in Mexico City

The race to succeed Mr Luis Donaldo Colosio as the presidential candidate of Mexico's ruling party reached fever pitch at the weekend, even as the party sought to quash rumours that the nomination was imminent.

Members of the Institutional Revolutionary party's (PRI) old guard seemed set on a desperate and probably futile effort to block the candidacy of the favourite, Mr Ernesto Zedillo, the campaign manager of Mr Colosio, who was assassinated on Wednesday.

Mr Zedillo, a former budget minister with an economics doctorate from Yale University in the US, represents the modern, pro-reform wing of the party.

Mr Fernando Ortiz Arana, party president, tried to quell speculation, saying no one in the party was authorised to comment on possible candidates: "The PRI, like all of Mexico, is in mourning. This is a time of reflection for all of us. In due time we will initiate internal processes to select our new candidate."

Mr Ramiro de la Rosa, head of Democracy 2000, a faction in the PRI, urged President



Salinas: Still kingmaker

Carlos Salinas to let the party choose its candidate without presidential interference. Mr de la Rosa's group backed Mr Ortiz Arana, presumed favourite of the party rank and file, as candidate.

A government official said it had still not decided how the candidate would be chosen. But the expectation is that Mr Salinas will select the candidate, after consultation with party officials and ministers.

As Mr Colosio's campaign

manager, Mr Zedillo is likely to be projected as the legitimate heir of the slain candidate.

The PRI still maintains that the candidate could be chosen as late as next week. However, if speculation increases it may have to be more quickly.

Meanwhile, Mr Porfirio Muñoz Ledo, president of the main leftist opposition party, has demanded an independent investigation into the murder of Mr Colosio. He believes Mr Mario Aburto, who has confessed to killing Mr Colosio, may have been paid by organised groups in the country.

Mr Aburto initially told investigators that he had links with such organised groups, but refused to name them. He also said that he would not talk unless tortured, indicating that he might have been part of a wider organisation, or wanted investigators to believe he was.

A government official said: "At this point there is no indication Mr Aburto was working for anyone else."

Police say they found a drawing in Mr Aburto's home depicting his soul entering the body of Mr Colosio, and another of the two floating up to heaven. In the view of the police, this suggested mental instability.

Iberia's deal with Argentina blocked

By John Barham
in Buenos Aires

An Argentine federal judge has ordered the government not to proceed with an agreement, signed 10 days ago with Iberia, Spain's national airline, to settle their dispute over Aerolineas Argentinas, the flag carrier.

Judge Oscar Garzón Funes accepted an appeal from the leftist Frente Grande opposition party that the settlement was against the national interest because it handed the airline to a foreign government.

Mr Javier Salas, Iberia's president, and Mr Domingo Cavallo, Argentine economy minister, had agreed to let Iberia raise its stake in Aerolineas to 85 from 30 per cent after pumping the equivalent of \$500m (\$334m) in fresh capital into the company.

The government said it would appeal against the

judge's decision. It might demand a ruling by the Supreme Court, where most of the judges were appointed by the privatising President Carlos Menem.

The deal also called for the abolition of the Argentine air force's profitable ground-handling monopoly at the country's airports. This has led to strong objections by the Defence Ministry.

Iberia says it could save \$20m a year by servicing its aircraft. The handling charge for a Boeing 747 in Buenos Aires is \$4,000, compared with \$1,400 in Santiago, Chile.

Iberia and the government have been bickering over loss-making Aerolineas since it was privatised in November 1990. The government had to take back part of the airline in 1992 to prevent its collapse. It rejected Iberia's demand last year that it contribute to the capital injection.

Venezuelan rebel released from jail

By Joseph Mann in Caracas

The Venezuelan army officer who led an unsuccessful military uprising against the government in early 1992 and became a popular political hero was released from jail at the weekend after President Rafael Caldera had ordered a halt to all court martial proceedings against him.

On his release, Lt-Col Hugo Chávez Frías, who has resigned from the army, told hundreds of supporters he would work with his own organisation "to gain political power" and "to show political schemers how a nation should achieve its true destiny". He also warned it would be "risky" to talk about another coup d'état in Venezuela.

The rebel leader's release forms part of a political "pacifi-

cation" by the president, who took office in February. He has ordered charges dropped against officers facing courts martial over the 1992 military uprisings, which left some 300 dead. This month Mr Caldera ordered the release of Rear-Adm Hernán Gruber Odreman, who headed the November 27 rebellion.

Fewer than 20 officers are still behind bars because of the coup attempts, and another group of officers is in exile in Peru. Some of these are expected to return to Venezuela seeking the benefits of the pacification programme. Lt-Col Chávez headed a rebellion against the government of President Carlos Andrés Pérez, who survived two coup attempts in 1992 but was forced to leave office early, in 1993, to face corruption charges.

US plans new move on Haiti

The US is planning to shift its policy on Haiti so as to put more pressure on the military leaders who took over the Caribbean country two and a half years ago, according to a report in the New York Times. George Graham writes from Washington.

The report said Vice-President Al Gore had briefed Father Jean-Bertrand Aristide, the ousted Haitian president, on a new plan calling for three steps on the same day: the military leaders would step down, the Haitian parliament would confirm a new prime minister named by Fr Aristide, and an amnesty for the coup leaders would be enacted.

The US administration's policy on Haiti has come in for stern criticism in the last few weeks from Democratic members of the US Congress, there having been a particularly fierce attack last week from the black caucus in Congress.

Gaviria to head the OAS

The Organisation of American States yesterday elected Mr César Gaviria, the president of Colombia, to be its new secretary-general, George Graham reports from Washington.

Mr Gaviria's election, by 20 votes to 14, capped a sometimes hostile campaign in which smaller OAS members, in the Caribbean and Central America, complained that their interests were being trampled by the heavyweight countries of South America, as well as by the US.

The smaller states had backed Mr Bernd Niehaus, foreign minister of Costa Rica, to succeed Mr João Baena Soares of Brazil, the outgoing secretary-general.

Each country has one vote but the alliance of the small appears to have broken up in the face of Mr Gaviria's candidacy.

Mr Gaviria is due to step down as president of Colombia in August.

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NEWS: UK

Key pact on Bedford truck parts

By John Griffiths

Marshall, the UK vehicles and aerospace group, has struck a landmark deal with General Motors under which it has acquired world marketing rights to the Bedford commercial vehicle name and purchased the entire Bedford truck and bus parts business.

The deal is expected to lead to a substantial increase in the group's truck production this year, from 400 to around 600. However, the parts business acquisition is regarded as at least as important by executives of Marshall SPV (Special Production Vehicles), the umbrella company for Marshall's vehicle operations, because of the exceptionally large number of Bedford vehicles on roads all around the world.

"On a conservative estimate there are at least 500,000 out there", Mr Dick Revell, Marshall SPV's parts director, said at the weekend.

Bedford, which has a history going back 60 years, was once the world's largest truck-maker. Its military vehicles have seen service with armed forces in dozens of countries and are still deployed by many, including the UK.

GM first sold the Bedford truckmaking business for £22m in 1967, when it was losing £500,000 a week, to entrepreneur Mr David Brown. He renamed it AWD. However, that business went into receivership and Marshall subsequently bought from the receivers AWD's product designs, order book, rights to the AWD name and limited rights to the Bedford name.

Marshall executives believe that a major reason that AWD went under was that its own deal with GM did not include the consistently profitable parts business. Most truck makers earn the majority of their revenue from replacement parts business rather than new vehicle sales.

One measure of the size of the parts business is that Marshall has already shipped 170 articulated truckloads of parts to warehousing in Kent from the former Bedford truckmaking facilities at Dunstable, Bedfordshire.

PM's office says EU deal not yet sealed

By David Owen

The office of prime minister Mr John Major moved last night to counter suggestions that Britain had capitulated in the row over voting rights in the enlarged European Union by cautioning against the assumption that the UK government would automatically accept the proposed deal.

Signalling the start of a concerted two-day push to swing the main body of the Conservative party behind the proposed compromise, Downing Street said that no decision would be taken until after a full meeting of cabinet tomorrow.

This would examine in detail whether or not the proposals met the concerns of the prime minister. According to one senior official: "There is still a fair bit of work to be done before we can assume there is an agreement."

With Tory business managers due to meet this morning, a crucial consideration will be how the proposals are received not by the Euro-sceptic hard core - who would oppose virtually any compromise - but by the broad mass of Tory rank-and-file MPs.

The support of all but the

hard core is essential for Mr Major who is anxious not to exacerbate the rift in the party over Europe in the run-up to local government and European elections which could have an important bearing on his future as leader.

Mr Douglas Hurd, foreign secretary, said he had "agreed to nothing" while emphasising the other countries had made a "serious move" in Britain's direction. He said: "We have to decide how our interests and those of the minority can be protected."

Noting that some countries were worried that the paper proposed by the Greek presidency went too far in Britain's direction, Mr Hurd said ministers would have to consider "very soberly whether it goes far enough, whether there are comments we want to make."

Leading Euro-sceptics yesterday joined Labour in criticising the government's handling of the negotiations.

Mr Bill Cash, the MP for Stafford and a leading Euro-sceptic, said he was "deeply disturbed by the trend. Once the votes are arranged so that 27 is the blocking minority, and not 23, it will be virtually impossible to unravel it."



The finest collection of early printed books to be sold at auction for more than 50 years will be offered at Sotheby's in London on July 1. There are almost 400 volumes including one illustrated with this hand-coloured woodblock, and they seem certain to fetch more than £2m. The books come from the court library of Prince Joachim zu Fürstberg. rarities include an almanac of 1462 believed to be the first example of printing from Vienna and a first edition of the "Speculum humanae salvationis" with the text in Latin and in German.

Row over issue of European works council

By David Goodhart, Labour Editor

The Institute of Directors has sharply criticised its rival employers body, the Confederation of British Industry, for accepting the principle of a transnational European works council for consulting with employees.

The issue of works councils, which has been a subject of debate in Europe for 20 years, comes to a head tomorrow when negotiations on the subject between Unice, the European employers body, and the European Trades Union Congress are set down.

Such a breakdown will make it almost certain that the European Commission will pass a directive on the issue early next year. Although Britain's Maastricht Treaty social "opt-out" means UK companies will not be affected within the UK, 70 or 80 British multinationals will be affected in continental Europe and are unlikely to exclude their UK employees.

But the IoD is still furious with the CBI, which is the largest single member of Unice, for conceding in negotiations with the ETUC that "minimum requirements" can be enforced in the event of companies and their employees failing to

reach an agreement. European employers have hitherto accepted the goal of consultation with their employees, and providing information for them, but have insisted that there should be flexibility.

However, Mr Peter Morgan, director-general of the IoD, believes that the wording of the latest Unice-ETUC agreement amounts to an "own goal" in accepting a works council-type forum.

"We urge the CBI and other national employer organisations in the member states of the EU to rethink their position on Unice's negotiations

with the ETUC and to oppose proposals which would require companies to set up union-dominated works councils", said Mr Morgan.

The IoD believes that even if the ETUC rejects the Unice position - because of disagreements about the level within the company at which the works council should operate - European companies will now find it more difficult to argue against the idea.

Some British employers also fear that the Commission will try to circumvent the opt-out and thus directly implicate up to 300 British companies in the works council directive. Mr

Michael Forsyth, the employment minister, last week told the House of Commons European Standing Committee that any such move would be "strongly resisted".

However Mr Forsyth also told the committee that he welcomed the Delors white paper on growth, competitiveness and employment, published last December, as "marking the beginnings of a real change in the Community's agenda". He said that the report "recognised that labour costs are simply too high and that they damage growth in jobs" and that Europe's labour markets were not working efficiently.

Britain in brief



Courtaulds to approve £80m plant

The board of Courtaulds, the chemicals and textiles group, is expected to approve in the new few days spending of about £80m on a European plant to produce Tencel, its new synthetic fabric.

The plant is to be located either at Grimsby on Humber-side or near Munich in Germany.

The approval is expected almost to coincide with a long-delayed agreement by Courtaulds and Hoechst, the German chemicals company, to merge their European viscose and acrylic fibres operations under Courtaulds' control.

Courtaulds said yesterday that it hoped that the merger, first announced in May last year but delayed by competition-authority scrutiny, would be signed before the end of this week.

Courtaulds wants the plant running in 1996 to cater for what it says will be surging world demand for the material, said to combine the toughness of denim with the feel of silk.

Because the production processes for Tencel, which is made from wood pulp, are highly automated, employment at such a facility is likely to be measured in dozens rather than hundreds.

TRW to set up parts plant

TRW, the US motor, space and defence multinational, is to set up its fourth motor components plant near Nissan's Sunderland car factory, creating 160 jobs.

TRW is investing £8m in the plant at Houghton-le-Spring, Wearside, north-east England. It will produce electronic trigger mechanisms for safety air bags, one of the fastest-growing sectors of the motor components industry.

The air-bag mechanism will be exported throughout Europe. The new facility is the latest in a series of motor component manufacturing investments in the north, and lifts to about 30 the number of such companies located close to the Nissan plant.

Nissan, which employs about 5,000 people at the Sunderland site, says it has generated about 3,000 jobs at component suppliers based either on its car factory site or in the north-east.

Farmers keep wages board

The government looks likely to preserve the Agricultural Wages Board, which lays down minimum wage rates for 150,000 farmworkers, after strong pressure to do so from the farming community.

An announcement confirming the board's future is expected this week from Mrs Gillian Shepherd, the minister of agriculture. Last year the government scrapped the Wages Councils that laid down minimum levels of pay for an estimated 4.5m workers in low wage sectors such as hotels and catering but ministers accept that farmworkers continue to need wage protection. The Agricultural Wages Board awarded a 4.9 per cent

wage rise to the low paid farmworkers last week, nearly twice the current level of pay rises in the economy despite opposition from the National Farmers Union. But many farmers prefer the existing wages system because it ensures stability in the industry.

Water surveys 'unreliable'

Water companies have been warned not to rely on surveys of the public's willingness to pay for higher water quality.

Surveys of whether households would pay for enhanced quality can be highly unreliable, says Mr George Gaskell, leading academic at the London School of Economics. His criticism comes just days before the water companies of England and Wales submit their "strategic business plans" to Ofwat. The proposed investment programmes in the plans, which cover the next 20 years, have been based partly on detailed customer surveys conducted last summer, of the kind which Mr Gaskell criticises.

The LSE head of social psychology argues that "until consumers are more informed, it is probably inappropriate to use responses in opinion surveys as the basis for the development of services."

Sunday worker wins key case

A worker who refused to work on a Sunday because it prevented him from going to church has won his case for unfair dismissal from an industrial tribunal in a unanimous verdict.

This is the first time an industrial tribunal has ruled in an unfair dismissal case based on the grounds of the applicant's religious beliefs.

Mr Andrew Dutton, a systems engineer with Hughes Rediffusion Simulation at Crawley for five years, said: "I am just an ordinary guy who did not want to be forced to work Sundays. I tried hard to reach a compromise with the company and failed."

Road projects to be trimmed

The outcome of the long-awaited review of Britain's £23bn roads programme, due to be announced on Wednesday, is expected to show a trimming of roadbuilding schemes but not wholesale cuts.

Most motorway-widening schemes are set to stay largely intact in spite of fierce protests from Tory backbench MPs and lobbyists.

The overall reduction in planned roadbuilding activity may be no more than 10 per cent or 15 per cent.

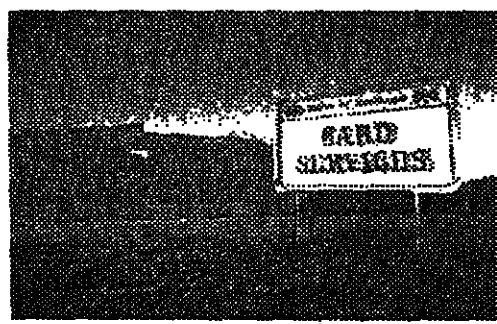
This is unlikely to ease pressure on the department from MPs of all parties and from other government departments.

Andersen offers merger

Arthur Andersen, the UK's fourth largest accountancy firm, is poised to merge with Binder Hamlyn, the eighth largest, in one of the largest consolidations in the profession for several years.

Heads of Binder's 11 regional partnerships around the country are due to meet today to discuss the proposals, which Andersen formally made two weeks ago and laid out at a meeting last week.

Precise details are still to be worked out.



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Auditors to BCCI face \$11bn claims

By Andrew Jack

The auditors to the collapsed Bank of Credit and Commerce International face claims from the liquidators of up to \$11bn, according to legal documents updating the original action.

Price Waterhouse and Ernst & Whinney, which is now part of Ernst & Young, are alleged to have failed to detect or report financial irregularities at the bank stretching back as far as 1977 and 1978 respectively.

The details appear in the statement of claim lodged in the high court which accompanies writs issued by BCCI's liquidators at Touche Ross against the auditors in the course of the last two years. The statement has not been made public. It was previously estimated the claims would be worth about \$8bn. The damages claimed increase still further one of the largest ever recorded legal actions.

The statement of claim says that the financial position of BCCI was materially misstated

in 1985, 1986 and 1987. It does not quantify any differences before this time because claims will not be allowed back beyond 1985.

Had the problems been brought to light, the statement claims that "imprudent conduct" at BCCI would have ended, weaknesses been corrected, management restructured and new capital would not have needed to be injected.

The statement of claim alleges that Price Waterhouse and Ernst & Whinney had expressed concerns about deficiencies or weaknesses in parts of the bank for up to 14 years before BCCI was closed by regulators in July 1991.

It says the firms were in breach of their duties to the shareholders of BCCI companies for failure to take account of the warning signs, conduct all the tests that they should have carried out, or failure to report weaknesses in internal controls and systems.

Both firms of auditors deny the allegations and are vigorously contesting the writs.



In addition to the above industry specific surveys, the FT focuses on individual destinations around the world in the Weekend FT Travel Section, and on business travel related issues in our regular Monday editorial feature. To a national center or related service industry, the travel specialists present the ideal opportunity to associate your office or company with chosen cities or countries.

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FT Surveys

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MANAGEMENT

S Africa's black managers

Political change in South Africa has accelerated the need to develop more black managers in public and private sectors alike. But blacks are still poorly represented - particularly at senior levels in organisations - and the challenge is formidable.

One attempt to redress the balance is today's conference in Oxford run by the Southern African Education Project, an independent charity which provides advance training and work experience to help South African graduates and representatives of big employers including Total South Africa, South African Breweries, South African Post-Office, Unilever, Standard Bank and the power company Eskom.

The idea is part recruitment drive, part seminar. According to Patrick Wintour of SAAEP, roughly half of those who attended the last two conferences either directly or indirectly landed their first job as a result. "The sense of urgency among employers to recruit good black graduates is now much greater," says Wintour, though he adds that SAAEP has been "less than successful" in tapping the interest of UK companies with South African subsidiaries.

Wintour says affirmative action remains a hot issue in the private sector, but believes the focus of debate may shift as the new government attempts to change the complexion of the public sector without unduly increasing its size.

He identifies three main lessons learnt so far. First, companies should give black recruits real jobs. "Tokenism has been exposed for the fraud that it is". Second, employers should be prepared to take risks "even if they are not 100 per cent sure that someone is right for the next move". Third, they should "tell other employees what they are doing and why they are doing it, so that everyone does not get confused".

SAAEP, tel: 0855 200685

Tim Dickson

All great paintings require an act of creativity. All paintings are painted by artists. Therefore all artists are creative. True or false?

An uncontroversial question, you might think. Yet a psychometric test containing 60 similar questions was last week criticised on the grounds of racial bias. Used by the General Council of the Bar of England and Wales to help select students for the barristers' finals course, the test is being blamed for a success rate of nearly 50 per cent for white candidates compared to less than 20 per cent for black and ethnic minority candidates.

"Nothing terrible has happened," says Robert Wood of Pearn Kandola Occupational Psychologists who helped design the selection system. He says the test was properly applied, and points out that the number of successful black candidates was higher than in previous years. Nevertheless, the Council of Legal Education feels obliged to mount an investigation. "Clearly there have been disparities in the selection rates. We need to look at what may have caused them," says John Taylor, secretary of the CLE.

The allegation of bias in psychometric testing is a serious one. Some 80 per cent of British companies use psychometric tests, and the number is rising. Employers use them to test for abilities as well as for personality traits. They use them to decide who to hire, who to promote, and even who to fire.

An estimated 100,000 tests are used in the UK each year for selection alone. Some come from reputable firms which design the tests with great care. Others are supplied by "bucket shops", or even come free with general packages of computer software.

Employers like psychometric tests because they appear to be more objective than other ways of assessing people. Interviews often prove to be of little use in picking the right person, and are wide open to discrimination. But while there is evidence that aptitude tests at least can be good predictors of success in the job, they can be dangerous in the wrong hands.

"Psychometric testing is not a neutral tool, and must be used carefully," says Chris Myant from the Commission for Racial Equality. He argues that nearly all tests are culturally loaded: different racial groups have had different educations, make different assumptions and may think differently, affecting their performance accordingly.

In the US psychometric tests fell out of fashion a decade ago on the racial discrimination issue. They are now making a comeback, but only in cases where they have been proved to be both relevant and equally valid for different ethnic groups.

Psychometric testing of job candidates is objective: True or False? Lucy Kellaway investigates

Tests on trial



In Britain the CRE recommends that all tests should have been tried out on a racially mixed group to identify bias, and that the standard of skills set in the test should be appropriate to the job in question.

When eight Asian guards wanting to become British Rail drivers recently failed a verbal reasoning test, the CRE complained. It said verbal reasoning was not necessary for train drivers, and that the test was therefore discriminatory. BR subsequently changed the test, and some of the guards who initially failed are now drivers.

However, even when obvious cultural references have been stripped out and the level of test is appropriate for the job in hand, tests can

still favour one race or sex above another. Charles Johnson, an occupational psychologist at Psychometric Research & Development who advised the Bar Council, argues that bias can creep in subtly. For instance, there is some evidence that ethnic minorities and women are less prepared to guess the right answer, which penalises them in tests where no marks are taken for wrong replies. Moreover, people who have been brought up on a heavy diet of exams will be better at controlling the speed at which they are working, and therefore tend to score higher.

In spite of these problems Johnson argues that the tests can still be useful if not too much reliance is

placed on any one test and the pass mark is not set too high.

One problem is the variable quality of suppliers. Saville & Holdsworth, one of the largest in Britain, researches each test on different ethnic groups before selling it. If it finds that certain groups score differently it makes sure that all users are aware of the discrepancy.

Moreover, reliable firms do not sell tests to anyone who has not been trained in how to use them. "Some instruments are knocked up over a wet weekend in someone's front room and then given some energetic marketing," warns Donald McLeod a psychologist at Ashridge Management College.

Part of the danger in psychometric tests lies in their very promise of objectivity. "People think if it's scientific, it must be fair," says Angela Baron a policy adviser at the Institute of Personnel Management. "Unless you understand how they work and what you are measuring they are open to discrimination."

The IPM recently published lengthy guidelines for companies using psychometric tests, starting with the golden rule that the tests would only be a part of a selection process, and indicating the importance of training and the need for careful monitoring.

While ability tests are controversial, personality tests are even more contentious. The latter variety of psychometric test has recently become the most popular of all. The tests ask a series of questions, ranging from "Do you prefer baths to showers?" to "Do you consider yourself to be outgoing?", in order to assess up to 30 different personality traits. Companies feel they are getting more precise information than can be obtained otherwise, in a form that allows them to compare candidates objectively.

Baron argues that employers should take care when using this sort of information in recruitment, although it could be useful in career counselling. "You need to ask if personality is relevant to the job anyway. Often it isn't," she says.

Personality tests can be distorted by the mood of the candidate on the day, or by fake answers. More alarmingly, there is little conclusive evidence that personality test results are related to performance in the job.

Academics such as Johnson, who believe in carefully monitored aptitude testing, draw the line at personality tests. "The idea that you can get paper and pencil tests to measure something intangible - I don't believe it," he says.

At least one thing can be said for them: as there are no right or wrong answers, the question of racial bias is not so serious. Yet that is not much consolation if they are not worth a row of beans anyway.

Remedies for absenteeism

Richard Donkin on ways to cut one of UK business's biggest blights

From the middle of this week the full burden of sick pay will fall on most big UK employers for the first time. The government claims that the reduction in National Insurance contributions will compensate for the overall cost - estimated at £700m - but within this there will be winners and losers.

Kenneth Clarke, the Chancellor of the Exchequer, said when he announced the changes that his intention was to encourage employers to work harder at controlling absenteeism. According to the Confederation of British Industry there remains plenty of scope for improvement.

A CBI report carried out with Percom, a UK consultancy, last year suggested that absenteeism was one of the biggest blights on UK business, costing employers £13bn a year.

Absence rates on average are running at about 4 to 5 per cent, according to most estimates, but managers are beginning to recognise that lower levels can be achieved. Some argue that often it is simply a matter of caring about people who work for you.

Nissan Motor Manufacturing (UK), the Sunderland-based car manufacturer, records absence figures of around 1.5 per cent to two per cent, less than five days a year per employee, in an industry that has been notorious for absenteeism.

Peter Wickens, Nissan's personnel director says the plant's current absence levels are 1.5 per cent. He says: "I always regard absence as having very little to do with sickness and a hell of a lot to do with lack of motivation." Nissan pays everyone from day one of sickness.

"I think that people who are paid when off sick are less likely to be sick," says Wickens, who argues that a system where people are not paid when they are off encourages employees to believe that no one loses when they are away.

The company's sick pay agreement includes a penalty. If people abuse the system they are liable to be disqualified from sickness benefit or face disciplinary action. Workers are expected to telephone when they are sick and are

asked about their sickness when they return.

Andrew Sargent, managing director of Sargent Minton, employee relations consultants, says five days absence a year is sufficient to take care of most minor illnesses such as flu epidemics. "The big problem is that grey area between those who are genuinely sick and people who are genuinely malingering. There are always people who will take companies for a ride," he says.

Leadsingers (skivers), he says, have become more accomplished at spreading their absences across the year. The answer is to treat absenteeism as a management problem. "This will mean better record keeping, better communication and more attentive and enthusiastic acceptance that ultimately only management can provide the cure," he says.

Both the CBI and an earlier Industrial Society survey suggest that full-time manual workers lose on average twice as many days as full-time non-manual workers. The CBI calculated that eight days a year per employee were being lost in manufacturing, but this was topped by local government and National Health Service employees with 10 and 11 days lost respectively.

The approach of Lewisham Borough Council is typical of the way the public sector is beginning to tackle the problem.

Andrew Ghosh, the council's assistant chief personnel officer, says absence levels were 17 days a year for each employee when the authority embarked on an initiative to bring absence levels down two years ago. Today, absenteeism has fallen by 5.8 days a year, equivalent to £1.5m of services.

Managers were trained to monitor absence using computer programmes which trigger on-screen messages when individuals reach certain absence rates.

While effective monitoring can reduce absenteeism to two per cent a year, according to some estimates, tackling absence in a piecemeal way is unlikely to get the sort of results achieved by Nissan. That, argues Wickens, results from the overall management approach to production, teamworking and motivation.

BUSINESS TRAVEL

False start at the stop

Daniel Green has reservations about the Heathrow bus service

Catching the bus into central London from Heathrow might seem like a good idea. A taxi costs at least £30, while, by the Underground, the journey takes up to an hour - or more if you need to change at stations where platforms are several minutes' walk apart, such as Green Park.

Moreover, the only view from the Tube is either of London's western suburbs or the inside of a tunnel. And stations for travellers with heavy cases.

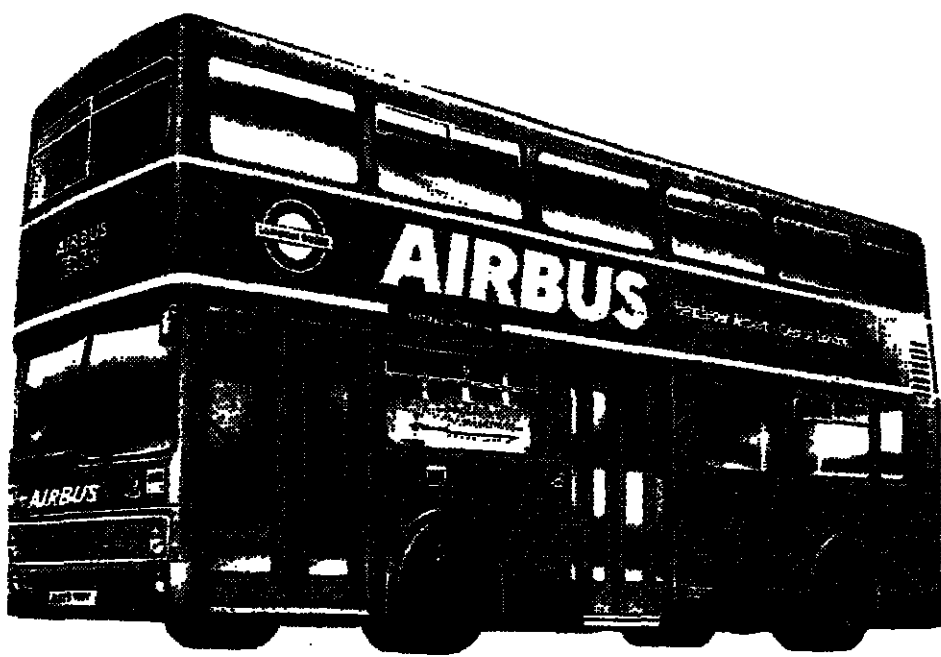
The Airbus, on the other hand, which is run by London Buses, offers a choice of routes going directly past the capital's main hotels. It does not stop in the suburbs, so travelling times compare favourably with the Tube's. Perhaps best of all, there are splendid views from the upper deck of what is

essentially a converted London bus. The ticket costs £5 single, £8 return.

This sounds ideal for the business executive on a budget. But when I tried it last month, on returning from a trip to Paris, I found that this was not the case.

The pick-up points at Heathrow are fairly easy to find, especially at Terminal Four. Each of the two services - one to Victoria bus station, the other to Russell Square - is scheduled to leave every 20 minutes or half hour, depending on the time of day, so it is worth checking the timetable to avoid a long wait.

On the day I was travelling, however, the timetable proved irrelevant. A businessman, two Japanese women and I waited at the Terminal Four stop until 10 minutes after the scheduled departure time. I approached a man with "Airbus" embla-



zoned on his jacket. He replied: "I don't know, mate. I started here two days ago."

Further pressure eventually persuaded him into a booth with darkened windows and, apparently, a telephone inside. He emerged with the comment: "The bus'll be here in about 10 minutes." It was not.

After a struggle to get him back into the box, he said: "It'll

be here at 25 to the hour." This was the next timetable slot. That time passed, however, and still nothing happened.

One hour after we had arrived at the bus stop, the four of us decided to take the Underground. London Buses insists that the Airbus service has had a reliable 14 years in service and gets "very few complaints". It

concedes that it should find a way to inform waiting passengers of delays.

Until it does so, business passengers, especially those with appointments, should not take the Airbus. And if you are travelling from central London to the airport and need to make your check-in time, consider buying a good newspaper and travelling by Tube.

The way European companies use travel agents is changing, writes Michael Skapinker

How five Bs drive a harder bargain

Mr Richard Lovell, head of Wagonlit Travel in northern Europe, remembers the conversations he used to have with potential clients six years ago. "They'd say: 'You're a pretty good agency, you've got a good reputation, another percentage point off your quote will get you the business,'" he recalls.

Today, Mr Lovell says, business travel agencies bidding for new contracts are routinely asked to submit proposals more than 100 pages long.

Mr Bill Kirkwood, travel management sales and marketing director at Thomas Cook, says his company recently concluded a contract with the Swiss Bank Corporation. The negotiations lasted three months. Five years ago, he says, they would have taken 10 days.

Travel agents say European companies are radically changing the way they manage business travel. Mr Lovell says the revolution began in the UK - for two reasons.

The first was that the recession and the drive for cost-cutting struck Britain before it affected the rest of Europe. The second was that trends from the US, where hard-nosed travel purchasing is well-established, usually take root in the UK more quickly than elsewhere in Europe. The same trends are now appearing in other European countries too.

The first thing travel agents noticed was that they were negotiating with different people. They used to deal with a company's travel manager. Increasingly, they found themselves being interviewed by the head of procurement: the person buying airline tickets and hotel rooms tended to be the same manager who purchased the company's electricity and cars, says Mr Lovell.

Mr Kirkwood says that, in some companies, the finance director or the head of human resources began to negotiate

travel contracts. Travel managers have not disappeared from all companies, he says. Where they survive, however, they usually work more closely with senior directors.

Mr Lovell says a new feature of the UK market is the appearance of travel consultants who help companies negotiate their contracts. Frequently, the consultants are travel managers who have been made redundant. Still a rare breed in the UK, travel consultants are common in the US, he says.

The information companies require from travel agents has changed too. In their 100-page documents, travel agents are expected to describe the structure of their own company - who owns it and what its

a few years ago? "A few years ago, you'd exchange a few letters," Mr Lovell says.

Mr Kirkwood says that while companies demand constant reductions in the cost of their business travel, they have begun to realise they cannot continually ask agents to pass on a growing part of their commissions to customers. Instead, increasingly they offer agents a proportion of the savings they make.

He says: "The typical commission on a £100 airline ticket is 25. Instead of asking for more of that commission, they're saying: 'Reduce the 25!'"

Mr Kirkwood says travel agents have to develop strategies to ensure they can communicate with all relevant staff on the client's premises and not just those at the top.

Thomas Cook calls the most important employees "the five Bs": the buyer of travel, who makes the principal decisions; the booker, who makes travel arrangements; the business traveller; the budget-holder, who controls the traveller's expenditure; and the back-office staff, who make the payments.

He says he expects corporate travel policy to evolve further in the next few years. Airline deregulation means there are far too many special deals on offer for companies to keep track of them all. Hotels will go the same way, Mr Kirkwood believes. Instead of having just one official rate and a corporate discount, hotels are increasingly quoting a range of prices aimed at ensuring they make the best use of their rooms.

Instead of companies specifying which class staff must fly and which carrier and type of hotel they should use, he believes they will tell employees they can spend a certain sum on each trip. It will then be up to the staff to sort out the most convenient route and hotel with the company's travel agent.

Instead of specifying an airline or hotel, companies may give staff a certain sum for each trip

financial strengths are. Companies want to know where travel agents have their branches and whether these are conveniently located for the client's own offices and factories.

Travel agents are asked to provide some sample quotes on airlines and hotels. They are asked to say who their other clients are. Mr Kirkwood says companies prefer travel agents to have clients of a similar size and status to themselves, so that they can establish performance and expenditure benchmarks.

Travel agents are required to provide references from other clients. They are also asked to provide details about their own staff, often from the chief executive downwards. Mr Lovell says companies sometimes ask if travel agents can help staff with their leisure travel. How does this compare with

Flights over the Atlantic from London

American Airlines is expanding its transatlantic services from London. From May 27, it will operate daily non-stop flights from Gatwick to Nashville, Tennessee, and to Raleigh/Durham in North Carolina, as well as daily non-stop services from Heathrow to Philadelphia.

From tomorrow, American will also operate six flights a day from Heathrow to New York's Kennedy airport, with a no-smoking flight operating from May 2.

Dublin to NY

The first scheduled non-stop air service between Dublin and New York began operating yesterday, following the lifting of a 40-year-old rule that all transatlantic flights had to land at Shannon airport in County Clare.

The Irish government



authorised the move when Aer Lingus, the state-backed national airline, indicated the change was an essential part of its survival plan.

Fare cuts

Virgin Atlantic is this week expected to announce plans to cut its fares in response to price cuts by British Airways at the end of last week. Under BA's World Offers scheme, savings of more than £300 can be made on trips to the Far East or Mexico, £200 to the Caribbean and £100 to the US, South Africa and Europe. Trips to Europe or North

Rail crashes

Rail traffic along one of Poland's main international railway routes was badly disrupted yesterday after a rail crash, which killed three people when a train smashed into their car in eastern Poland.

Meanwhile, 75 people were injured, 11 critically, when two trains travelling between Kfar el Sheikh and Byala collided head-on in the Nile Delta region yesterday.

Dry Caracas

Caracas, capital of Venezuela, has begun rationing water because of unusually low reservoirs. Water may be turned off for up to four days a week in some parts.

Algerian unrest

France has urged its nationals to return home from Algeria,

likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Hong Kong	25	17	16	17	17
Frankfurt	25	18	19	20	20
L. Angeles	29	27	28	23	22
Paris	20	18	18	17	18

unless their presence in the north African country is vital. The move follows the murders of two Frenchmen in an Algiers suburb last week.

The foreign ministry said in a statement that the stabbing to death of the two men on Tuesday night, blamed by the official news agency APS on Moslem fundamentalists fighting to overthrow the army-backed government, was "an act of barbarity".

THE MONDAY People page

No short cuts for committed minimalist

Fame has come late for fashion designer Jil Sander, explains Alice Rawsthorn

Most fashion designers hit the headlines when they are bright young things turning out avant garde designs at the start of their careers; but there are exceptions for whom fame and acclaim comes later in life.

Jil Sander, now 50, has for two decades been creating contemporary classic clothes in a subtle, understated style. Her crisply-cut trouser suits and tunics have won her a fanatical following among the natter brand of businesswomen and Hollywood sirens such as Winona Ryder and Sharon Stone. Her commercial success has already made her one of the wealthiest women in her native Germany. But it is only recently, as consumer taste has swung away from the opulence of the 1980s, that Jil Sander's minimalism has been billed the look of the moment.

"It feels like my time has come," she says. "I felt out of step with fashion in the 1980s. I hated the madame look - all those little suits with shiny buttons. It was boring and bourgeois. It made women look like little girls. I like clothes that make them look cool and classy - that bring out their strength. Women don't have to dress like bimbos to be sexy."

Sander, with her tousled blonde bob and laughing blue eyes, is typical of the strong, self-confident women for whom she designs. She exudes energy as she strides into the room in a navy blue trouser suit and immaculate white T-shirt. Her face is free from make-up. Her only ornament is an extremely expensive, but workmanlike, watch.

She was born Heidemarie Jiline Sander in wartime Wesselburen, a small town on the North Sea coast to which her mother had fled from the Hamburg bombs while her father was fighting on the Russian front. Her child-

hood was happy and comfortable, but there was nothing in it that might have been expected to spur her on to her current success.

"There were no career women in my family, so I didn't have any role models in that sense. But my mother was very creative and she always encouraged me to express myself. The German women of her generation were very strong. Life was tough in the years after the second world war. Many women played dual roles by looking after their families and earning a living. That made a big impression on their children, like me, and even on their grandchildren."

Sander studied textile engineering and then spent a year as an exchange student in Los Angeles. "It was a wonderful time for me. California seemed so sunny and free after Germany which, in the early 1960s, was still stifling and narrow-minded." But she cut short her stay in the US when her father died and returned home to help her mother and younger brother.

She worked as a stylist on a fashion magazine and started to design clothes in her spare time. In 1968 she opened a boutique in the plush Pöseldorf area of Hamburg and in 1974 launched her first full collection. Germany then, as now, had a huge commercial clothing industry. But it was a creative backwater. Karl Lagerfeld, the only other notable German designer of her generation, fled to France where he is now artistic director of Chanel. Sander stayed in Hamburg to go it alone.

"It wasn't easy establishing myself as a designer in Germany," she says now. "The struggle of rebuilding the country after the war and the guilt about the terrible things that had happened created a very materialistic culture. The nouveaux riches were very powerful and the creative part of our heritage



Timothy Greenfield-Sanders

tended to be forgotten. Things are changing now after reunification, but in those days it was difficult."

Also she began her business at a time when it was relatively rare for women to do so. "It may sound surprising but I've never experienced any problems because of my sex. I founded the company and I run it myself. That's the way it's always been. I've never had a boss. Things might have been different if I had. I think some men do find it difficult to deal with women in positions of authority. That's why so many women set up on their own. They opt out of the boardroom battles."

The business grew gradually in the early years but its expansion has accelerated since going public in 1989. Sander is now the chairman and majority shareholder of a company with annual turnover of \$210m that sells everything from £900 suits to £30 bottles of scent.

Yet she still sees herself as a designer rather than a businesswoman. "Even as a child I always knew I wanted to be creative, but the business side came as a surprise. I do it because I have to. It still amazes me that I have a flair for it. The key is delegation. I've made sure that I have very good people."

She still oversees every aspect of the design of her collections and even tries on each garment to check the cut and construction. "I need to know whether anything is wrong. The only way to be sure is to try it myself." What sort of

mistakes does she find? "Everything." Her face wrinkles. "Maybe the sleeves are too short or a button is in the wrong place. I've got to be sure."

She usually works for 14 hours a day. "I've always been pre-occupied by my career. There's never been enough time for me to play a conventional domestic role, even if I'd wanted to." But she does enjoy the fruits of her success - she has a 19th century town house in Hamburg, a country estate in Schleswig-Holstein and the latest acquisition, an 18th century town house in Paris.

At first she favoured the same minimalist style for her homes as for her clothes. "It was very chic," she laughs. "So chic that no one could relax." These days she scours the auction rooms for antique furniture, although her taste in art is still uncompromisingly contemporary. "I'm a modernist. I'm interested in art that reflects my own era. Besides, I've been buying work by Joseph Beuys, Jannis Kounellis and Cy Twombly since the early days when it was cheap. It certainly (giggles) isn't now."

Her latest passion is gardening. She has created a formal English garden in the grounds of her Schleswig-Holstein estate and spends her spare time there pruning trees and clipping hedges. "I love the idea of planning a garden and imagining how it will look in 10 or 20 years. It's a wonderful contrast to fashion. Clothes come and go from season to season. It's all change, change, change. A garden is something that lasts."

Personae Smooth transition at Tenneco

When Dana Mead, Tenneco's new president and CEO, was recruited in 1991 to be second-in-command to Mike Walsh, Tenneco's chief, he jumped at the chance to work with an old friend on the challenge of restructuring a diversified industrial company, writes Laurie Marsh.

Barely a year later, Walsh announced he was fighting inoperable brain cancer and Mead quickly shouldered many of the CEO's responsibilities. Last month, 51-year-old Walsh took indefinite medical leave and Mead formally took over as Tenneco's head. Walsh remains Tenneco's chairman.

The transition was so smooth it caused barely a ripple on Wall Street, where the silver-haired 58-year-old Mead is both well-known and respected. A West Point graduate and former US Army colonel who served in West Germany and Vietnam, Mead is widely expected to continue with the company's restructuring.

In 1993 Tenneco had sales of \$13.3bn and net income of \$426m or \$2.44 per share. Mead is already credited with a remarkable turnaround at Tenneco's largest division, the Wisconsin-based J.I. Case. When he arrived in 1991,

Case, which manufactures heavy farm and construction machinery, logged \$1bn in losses on \$4bn in sales. Last year, only a year into a three-year restructuring plan directed by Mead, Case had operating profits of \$82m.

Before coming to Tenneco, Mead spent 14 years at International Paper, directing modernisation and expansion there. Like Walsh, Mead held an internship at the White House, and is well-connected in Washington. He holds a doctorate in political science and economics from the Massachusetts Institute of Technology.

New challenge for Vance the peacemaker at Macy's

Cyrus Vance, the unflappable US diplomat who tried and failed to bring peace to Bosnia, has taken on his fair share of thankless tasks since serving as US secretary of state under Jimmy Carter, writes Frank McGurty. His latest leap of faith - as court-appointed mediator in the negotiations to bring the Macy's department store chain out of bankruptcy - is likely to test his patience to the limit.

Vance (right), who celebrated his 77th birthday yesterday, is charged with hammering out a reorganisation plan that will satisfy a panoply of competing creditors, owed a total of \$68m by the once-proud New York retailing group.

After dragging on for more than two years, the process took on a sense of urgency three months ago when Federated Department Stores, a long-time rival and owner of New York's Bloomingdale's, bought a big chunk of Macy's debt to use as leverage in forcing a merger between the two groups.

Last week the battle entered a critical phase, with Macy's management submitting to Vance its blueprint for keeping the group independent. The plan, which is really just a starting point for negotiations, appears to have placated a disgruntled group of junk bondholders, but it managed to upset secured creditors who had supported an earlier



version of the plan. The escalation of tensions raises the likelihood of Federated succeeding in its ambitions.

Vance, who works for the law firm of Simpson, Thacher and Bartlett, is scheduled to meet Macy's creditors, including Federated, on April 11. If he hopes to broker a deal among them, Vance will be sure to need all the diplomatic skills he refined on his last international mission.

Ghali moves on at BankAmerica

There was a time during the international banking boom of the 1970s when Bank of America seemed to use London as a testbed for its future leaders. Al Rice, the first banker to head the bank's London-based Europe, Middle East and Africa (EMEA) division, went on to be a vice-chairman and his successor, Sam Armacost, became chief executive. However, the upheavals at Bank of America and the

changes in international banking have had a knock-on effect on the importance of London in the bank's affairs. More recently, Bank of America's top man in Europe has tended to move on to other things outside the group when his term expired, rather than return to San Francisco.

Paul Verburg, a Dutchman who took over from Mont McMillen, left in 1988, and his successor, William Young, subsequently retired from the bank and went off to Cambridge to read modern history. Now Riad Ghali, a 48-year-old Egyptian, is leaving next month in order to "have time for his personal and business pursuits in Europe". Ghali, who has been doing the job for three years, is handing over to Rob Morrow, 44, who has been responsible for managing the EMEA group's wholesale banking relationships, commercial banking and financial institutions activities since August 1993.

Like Ghali, Morrow is one of several top executives with the same Wells Fargo pedigree as Richard Rosenberg, chairman of BankAmerica, and chief financial officer Lewis Coleman, tipped as Rosenberg's heir apparent. Coleman spent ten years with Wells Fargo before joining Merrill Lynch in 1982 as executive director of its private resources operation in San Francisco. In 1990 he joined Bank of America as managing director of mergers and acquisitions in its capital markets division. He became executive vice president and manager of its US division corporate banking group a year later.

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ARTS
GUIDE

History means business

Britain is losing a real sense of its past, says Colin Amery

Is the United Kingdom slipping quietly into the role of the historical theme park of Europe? When we first joined the European Union there were many sceptics who predicted that Britain's future was clearly marked out as a museum of industry. How far have the sceptics been proved right and how far has the British appetite for history been allowed to sap our energy for the future?

Last week this page recorded the opening of the latest display at the Tower of London - the new Jewel House for the glittering baubles of our Imperial past - which are now shown in a way that combines theatre, the movies and a modicum of history. It is, of course, all in the cause of tourism - millions of visitors have, by the sheer weight of their numbers, set in motion the machine of profit and bureaucracy that will ultimately remove any real sense of the past.

In 1989 the Historic Royal Palaces agency was set up to run five unoccupied royal palaces as an independent and profitable business: Hampton Court Palace, Kensington Palace, the Tower of London, Kensington Palace (the state apartments only) and the Banqueting House in Whitehall. Since the agency's formation, a great deal has happened, with restorations and improvements brought about to ensure that more people visit more of the palaces, and that each visit is, in some way, made more rewarding. Curiously, it was the fire at Hampton Court Palace in 1986 and the subsequent restoration of the King's Apartments that put the new agency on the map. The decision was taken to carry out six years of highly skilled restoration under the inspired direction of a young curator, Mr Simon Thurley. His decision to present the rooms as they were left

by Sir Christopher Wren, in response to the original commission of King William III, was the right one. Thurley has been much aided by the textile conservation studio, which is based at Hampton Court, and by the general wish to see the palace not merely as a series of empty rooms but as a place where monarchs once lived. The inspiration for the approach at Hampton Court is the palace of Versailles, where the painstaking restoration and rejuvenation of the royal apartments began in the 1970s.

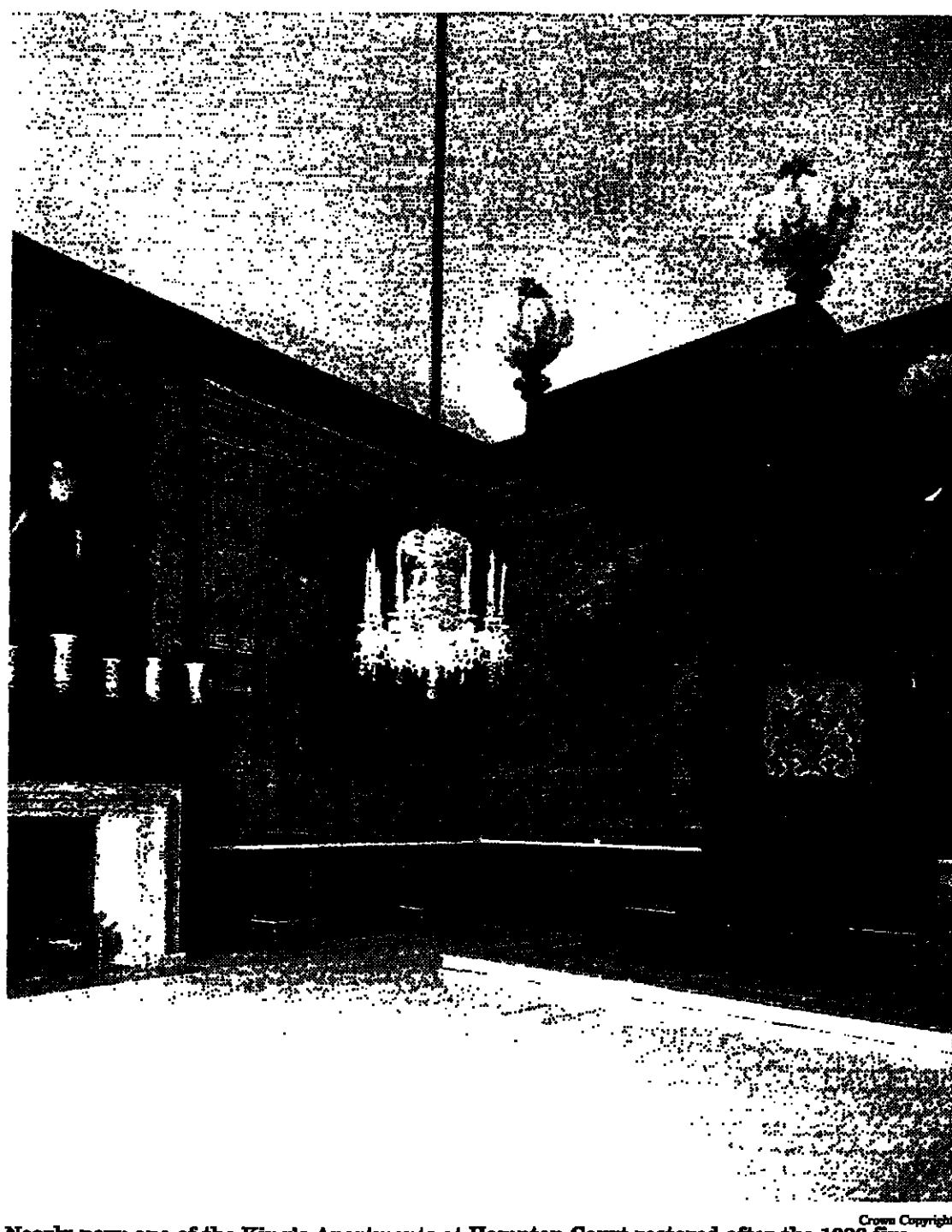
The search for authenticity is, however, an entirely elusive thing. No amount of research can precisely capture the way the royal palaces were used. I have written in the past about the highly dubious restoration that went on in the Queen's House at Greenwich, where there was little genuine decoration or furniture. There were some inexcusable things at Greenwich - the photographic copy of ceiling murals, the cheap gilded furniture and everywhere

inexpensive materials masquerading as "authentic" ones. The quality of the work at Hampton Court is in a different league. The raw materials are better but so is the taste and the judgment. There are some grey areas - the costumed guides do smack of a Disney experience and the sensation of everything looking new is curiously neat and depressing. I wonder what foreign visitors really make of the smart apartments? I am old enough to remember the sense of enjoying the old and the shabby at Hampton Court and also the sense of discovery that comes from not being organised and steered as a visitor, of making one's own discoveries. I will never forget the first time, as the only person there on a winter visit, I looked down into the Chapel at Hampton Court.

The people I have spoken to at Historic Royal Palaces are full of the word, "reinterpretation". It is a word that is also much in vogue at the National Trust. It involves freezing palaces, parks and rooms at a certain moment in history.

We are going to see a good example of this at Kensington Palace soon, when the King's Gallery will be "restored" to the William Kent designs with white and gold paneling, with pictures rehung in William Kent frames. This room will in fact be new but will be described as a restoration. We are on thin ice here and in danger of losing all sense of the marks of time on the walls of our ancient palaces. At Kensington Palace there will also be special "themed" tours. You will be able to plug into an architectural tour or a costume tour or even a play that will relay the past via your "Walkman" as you pace the newly polished floors.

The past was once seen as a delicate thing that had to be gently nurtured and largely left alone. Now the past is a business and is doing well drumming up the visitors in numbers large enough to kill the things they love. I often feel like a lone voice - I actually like decay and signs of wear and age. I like undiscovered and uninterpreted history. It is the sound bite of history that we are experiencing today. As I went past the Crown of England on the traveler at the Tower, I knew that all sense of real mystery and significance of that once sacred object had gone for ever. Is that what is happening as we sanitise and restore so much of the past? Making all things new and then reinterpreting them as old is a baffling way to maintain a sense of history. But then, perhaps I'm in need of a bit of restoration myself.



Nearly new: one of the King's Apartments at Hampton Court restored after the 1986 fire



Small Axe: Gary Lambert, Cathrine Price, and Ben Craft (left to right)

Britain's independent dance scene used to be the counter-culture territory of young choreographers and performers who had little interest in finding a place in the established contemporary dance companies. During the past few years, however, this supposedly alternative scene has also become a home for restless dissidents of mainstream organisations.

Jeremy James, Mark Baldwin, Gary Lambert and Ben Craft, all former members of Rambert Dance Company, now operate as independent choreographer-dancers. And all, in recent weeks, have presented evenings of their own work in the Spring Loaded season at the Place Theatre, London's busiest venue for independent dance. Ironically, it is these artists - relative newcomers to the scene - who are responsible for some of the most noteworthy and individualistic work in this year's Spring Loaded.

Not everything served up by Lambert and Craft (as Small Axe), Baldwin (directing half a dozen ex-Rambert colleagues), and Jeremy James (sharing a bill with versatile freelance Jo Chandler) could be described as heaven-sent. But the flaws and weaknesses are, to a great extent, diluted by a combination of intelligence and autonomy.

Dance/Sophie Constanti Spring Loaded

efforts. Like last year's rambling trail from *New Maiden to Uppminster*, *Cold Ground Drifting* invites its audience on a journey, transporting us to various, unspecified, but mostly hostile and deprived areas of the city. It also shows Lambert and Craft beginning to achieve a more organic and potent fusion of means, the overall structure of this new work being not only more visually coherent, but able to harness the same uncertainties of improvisation which blighted the group's debut production. Michael Enlie's design - an arrangement of 20 stripped and hammered car bonnets - and lighting - shadowy and garish by turns - creates an urban scrapyard-cum-playground. The soundscape, by Craft, is one of those blurry collages of filtered everyday noise - footsteps, the strains of police cars and fire engines, repeated fragments of conversation with street dwellers - broken by interludes for cello and trumpet. The four performers, Cathrine Price, Tristan Borrer, Lambert and Craft (all excellent), are not so much a team as a collection of individuals inhabiting the same space. But a reciprocal ebb and flow of action emerges through shared motifs: limbs swinging into right angle hinge positions,

slow push-ups, coiled jumps, the momentary transition of body weight from feet to hands.

Like Lambert and Craft, Jeremy James and Jo Chandler seem to be trying to forge a personalised language of dance based on an amalgam of techniques. But while Lambert and Craft have almost ceased looking like Rambert dancers who accidentally wandered into alien choreography and set about reprogramming their physicality on stage, James is still working within the parameters he knows and understands. In his own solo, *Scag*, he is implacable, casual, but not different enough to stop you having mental flashbacks of his dancing in Rambert pieces such as *Siobhan Davies' Sounding*.

Over the last few months, Mark Baldwin, currently choreographer in residence at Sadler's Wells, has produced two new pieces - *Fachai Nonsense* and *More Poulenc* - the latter an affectionate companion piece to his Poulenc-accompanied *Spirit* (created last year for Rambert). Along with *Island to Island* (an earlier work for Rambert), and a solo entitled *Kate Lines* (for Small Axe's Cathrine Price, one of Baldwin's contemporaries at Rambert during the 1980s), this pair

of newly completed dances formed his programme for Spring Loaded. *More Poulenc*, the closing number, is the highlight of the evening. Its prankish manner, throwaway gestures and the rich invention of its choreography become visible almost as soon as the music, Poulenc's *Les Soirées de Nazelles*, commences. *More Poulenc* is organised as a series of episodic sketches revolving around the events at a house party.

As *More Poulenc's* mismatched characters, Sarah Warsop, Sara Matthews, Lee Boggess and Baldwin give fine performances, letting the necessary air of restraint wait elegantly across their encounters before succumbing to absurdity and mischief. The sequences for Warsop, Matthews and Boggess are fast-moving studies in elegance and dexterity, threatened by instances of unpredictable behaviour: a limping Baldwin, coursing at dangerously high speed towards the demurely poised trio, pausing then slumping to the ground; Boggess, suddenly and inexplicably, bending over to let Warsop run her fingers up and down his spine; Baldwin lifting Warsop or Matthews as though he's tying up the stage. Baldwin casts himself as the principal oddball, a role in which he manages to be both mentor and fool and in which he reveals an instinctive sense of comic timing. *More Poulenc* is one of the best and strangest things he has ever made.

Vienna Philharmonic Shame about the maestros

While Austria waits patiently for confirmation of its entry into the European Union, the country's leading orchestra has already crossed the threshold. Since last year the Vienna Philharmonic Orchestra has committed itself to an annual European series of concerts, taking it regularly to Paris, Berlin and the Royal Festival Hall in London.

At the start it must have looked a foolproof project. The orchestra could play the role of Austria's cultural ambassador, exporting music of the highest quality around Europe. Unfortunately, people who thought they were being guaranteed concerts which were automatically superior have had a cruel disappointment. Nothing that the Vienna Philharmonic has done so far has lived up to memories of its visits in the 1970s and 1980s with conductors such as Böhm, Jochum and Bernstein.

This is not the orchestra's fault. The standard of its playing remains at the top of the league, but the fated maestros that it has brought with it seem unable to draw from the players anything beyond technical excellence. The effect is like window-shopping in Kärntnerstrasse, Vienna's premier street. The symphonies and tone poems are dressed like mannequins in the finest orchestral clothes, the cut exquisite, the textures sumptuous, the quality simply the best, but the music within remains as lifeless as any shop-window dummy.

Any one of our British orchestras would be proud to have a violin section that could phrase the opening of the slow movement to Schubert's Sixth Symphony as elegantly as the Vienna Philharmonic does. The balance of the wind on the movement's final chord was hardly less impressive. But even this unexceptional symphony should have some inner life. Zubin Mehta's performance vied with Levine's Brahms of last year as the most deadening in the five concerts to date.

Mehta's taste is for musical extravagance. Maybe the Schubert was only included to give the audience some respite between two works of massive excess, Wagner's *Overture to Rienzi* and Strauss's *Sinfonia domestica*. The Strauss employs one of the largest orchestras ever used. Mehta knows how to marshal gargantuan forces like these and the performance was saturated in lush textures, glorious climaxes and de luxe ensemble. In the end, however, this concert left the intellect sleeping, the heart unmoved. Perhaps it is unfair to ask that a work as overblown as the Strauss should yield any deeper rewards, but probing a score's depths has never really been Mehta's forte. In none of the concerts that I have heard in these series has this marvellous orchestra penetrated to the heart of a great piece of music. Somewhere there must be a conductor who can show them the way.

Richard Fairman

The VPO's next concert in London is on April 25

INTERNATIONAL ARTS GUIDE

BERLIN

OPERA/DANCE
Staatsoper unter den Linden
Tonight: Nureyev production of *Sleeping Beauty*. Wed: *Entführung*. Thurs: Daniel Barenboim conducts Dieter Dorn's new production of *Elektra*, with Deborah Polaski, Uta Priew, Alessandra Marc and Falk Struckmann (repeated April 5 and 10). Fri: Die Zauberkiste. Sat and Mon: Barenboim conducts Harry Kupfer's production of Parsifal, with Reiner Goldberg, John Tomlinson and Uta Priew. Sun: Giselle (200 4762/2035 4494).
Deutsches Oper Tomorrow: Madame Butterfly. Wed: Die Zauberkiste. Thurs: Jiri Kout conducts Götz Friedrich's new production of Schoenberg's *Erwartung* (Karin Armstrong) and Bartók's *Duke Bluebeard's Castle* (Doris Soffel and Richard Cowan). Fri, Sun: Alan Hacker conducts revival of Achim Freyer's staged version of Handel's *Messiah*. Sat: Don Giovanni. Next Mon: Aida (341 0249).
CONCERTS
Schauspielhaus Tonight: Zubin

Mehta conducts Vienna Philharmonic Orchestra in works by Wagner, Schubert and Strauss. Thurs: Wolfgang Hock conducts Orchestra of Meiningen Theatre in works by Hans von Bülow, Liszt, Rubinstein and Beethoven. Fri: Michael Schoenwandt conducts Berlin Symphony Orchestra and Ernst Senf Chorus in works by Mozart, Szymanowski and Haydn. Sun: Marcus Creed conducts Akademie für Alte Musik in Handel's oratorio *La Resurrezione*. Next Mon: Natalia Gutman cello recital (2090 2156).
Philharmonie Thurs: Vladimir Ashkenazy takes part in a programme of piano trios. Sun and next Mon: Kurt Sanderling conducts Berlin Radio Symphony Orchestra in Bruckner's Seventh Symphony. The next Berlin Philharmonic concerts are on April 9, 10 and 11, when Simon Rattle conducts works by Mozart and Nielsen, with piano soloist Stephen Kovacevich (2548 8132).

NEW YORK

THEATRE
● *Angels in America*: Tony Kushner's epic two-part drama conjures a vision of America at the edge of disaster. Part one is *Millennium Approaches*, part two *Perestroika*, played on separate evenings (Walter Kerr, 219 West 48th St, 239 6200).
● *Four Dogs and a Bone*: John Patrick Shanley's comedy about movie-making and power plays in Hollywood was one of off-Broadway's biggest hits last autumn (Lucille Lortel, 121 Christopher St, 924 8782).

● *Blown Sideways Through Life*: Claudia Shear's 65th birthday performance this hit monologue about the previous 64 - everything from waiting tables to answering phones in a bordello. A funny and moving evening (Cherry Lane, 38 Commerce St, 988 2285).
● *Pounding Nails into the Floor* with My Forehead: Eric Bogosian's monologue on life in the 1990s moves down all the sacred cows of political correctness. A scathing, scatological, exhilarating rant (Minetta Lane, 18 Minetta Lane east of Sixth Ave, 307 4100).
● *Laughter on the 23rd Floor*: Neil Simon's 27th Broadway play, about a group of writers trying to come up with a new show, is one of his finest comic efforts. Directed by Jerry Zaks (Richard Rodgers, 226 West 48th St, 307 4100).
● *The Emperor Jones*: A Wooster Group production of Eugene O'Neill's drama, directed by Elizabeth LeCompte. Till April 9 (Performing Garage, 33 Wooster St, 988 3651).
● *Carousel*: a re-creation of Nicholas Hytner's multi-award-winning National Theatre of London production of the Rodgers and Hammerstein musical, with Michael Hayden heading the American cast as Billy Bigelow (Vivian Beaumont, Lincoln Center, 239 6200).
● *Crazy For You*: this musical based on Gershwin's *Gli Gliz* recently passed its second anniversary on Broadway. A highlight of its glitzy, fluffy entertainment is Susan Stroman's wildly imaginative choreography (Shubert, 225 West 44th St, 239 6200).

● *My Fair Lady*: Howard Davies' genial new production of the Lerner and Loewe musical, with Richard Chamberlain as a suave Professor Higgins and Melissa Errico the attractive Eliza (Virginia, 245 West 52nd St, 239 6200).
● *Damn Yankees*: a revival of the award-winning 1956 musical comedy by Richard Adler and Jerry Ross (Marquis, 1535 Broadway at 45th St, 307 4100).
OPERA/DANCE
Metropolitan Opera A new production of *Otello*, staged by Elijah Moshinsky and conducted by Valery Gergiev, can be seen tomorrow and Sat afternoon with a cast headed by Plácido Domingo, Carol Vaness and Sergei Leiferkus (in repertory with changing casts till April 22). This week's performances also include *Il barbiere di Siviglia* with Susanne Mentzer and Vladimir Chernov, *Der fliegende Holländer* with James Morris and Julia Varady, and *Elektra* with Gwyneth Jones. Pavarotti sings in *Tosca* on April 13 and 18, and the season ends on April 23 (362 6000).
State Theater Joffrey Ballet season runs from April 6 to 17 (870 5570).
CONCERTS
Avery Fisher Hall Tomorrow: Kurt Masur conducts New York Philharmonic Orchestra in works by Schoenberg and Beethoven. Thurs, Fri, Sat, next Mon: Masur conducts Mahler's Ninth Symphony (875 5030).
Carnegie Hall Tomorrow: Ivo Pogorelec piano recital. Wed: Robert Shaw conducts Orchestra of St Luke's and Atlanta Chamber Chorus in Bach's St John Passion. Thurs: Jon Faddis conducts

Carnegie Hall Jazz Band and guest artists in a programme entitled *The Blues in Jazz*. April 8: Murray Perahia piano recital (247 7800).
JAZZ/CABARET
Alice Tully Hall Fri, Sat, Sun: Wynton Marsalis introduces three programmes, including a new work specially commissioned for the series *Jazz at Lincoln Center* (721 6500).

PARIS

OPERA/DANCE
Palais Garnier Tonight: Opéra Ballet School gives final performance of mixed bill, choreographies by Béjart, Balanchine and Bessy. April 9: Opéra Ballet gives world premiere of new work by Angelin Preljocaj, entitled *Le Parc* (4742 5371).
Châtelet Tomorrow, Thurs, Sat: David Robertson conducts Peter Stein's WNO production of *Pelléas et Mélisande*, with cast headed by Alison Hagley, Neil Archer and Donald Macleod. April 5-14: Frankfurt Ballet in two programmes choreographed by William Forsythe (4028 2840).
Opéra Comique April 5-22: Werther, with casts including Alfredo Kraus in title role and Martine Dupuy as Charlotte (4288 8883).
CONCERTS
Salle Pleyel Tomorrow: Guido Amore-Marsan conducts Ensemble Orchestral de Paris in works by Haydn, Handel and Mozart, with soprano soloist June Anderson. Wed, Thurs: Günther Herbig conducts Orchestra de Paris in Grieg, Schumann and Shostakovich, with piano soloist Radu Lupu. April 7: Alfred Brendel plays Beethoven piano sonatas (4561 0630).

Théâtre des Champs-Élysées
Thurs: Maurice Kagel conducts Orchestre National d'Île de France in a programme of his own music, with soloists including tenor Nigel Robson. Fri: Yehudi Menuhin conducts Orchestre National de France in works by Prokofiev, Mozart, Ravel and Sarasate (4952 5050).
JAZZ/CABARET
American jazz singer Ernie Andrews and Johnny Kirkwood Quartet are in residence till Sat at Lionel Hampton Jazz Club. Music from 10.30pm to 2am. April 4-16: Lynn White Revue (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4088 3042).
THEATRE
● *Hamlet*: Paris audiences currently have a choice between a traditional, unfussy production directed by former RSC artistic director Terry Hands at Marigny (4256 0441), and Georges Lavaudant's swift, exciting new version for the Comédie Française the first time Shakespeare's tragedy has been seen there for 52 years (4015 0015).
● *Krapp's Last Tape* (*La Dernière Bande*): David Warlow gives a performance of comic impudence in Samuel Beckett's one-man play (Athénée Louis Jouvet 4742 6727).
● *Chekhov Act Three*: the third acts of *Uncle Vanya*, *Three Sisters* and *The Cherry Orchard*, in a revealing production directed by two Moscow actors, Anastasia Vartinskaya and Alexander Kaliaguine (Théâtre des Amandiers, Nanterre 4814 7000).

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.
European Cable and Satellite Business TV
(Central European Time)
MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230.
MONDAY
NBC/Super Channel: FT Reports 1230.
TUESDAY
European: FT Reports 0745, 1315, 1545, 1815, 2345.
WEDNESDAY
NBC/Super Channel: FT Reports 1230.
FRIDAY
NBC/Super Channel: FT Reports 1230.
Sky News: FT Reports 0230, 2030.
SUNDAY
NBC/Super Channel: FT Reports 2230.
Sky News: FT Reports 0430, 1730.

Dangers of western gullibility

Boris Fyodorov argues the sooner Russia receives aid, the sooner policy will change – for the worse

When one reflects on the events of the past five years, one begins to doubt if the west is really interested in Russia becoming an efficient market economy with a normal democratic political system. The signals are disturbing.

When Yegor Gaidar's government was pushing forward in 1992, the west was deliberating. When progress was being made in 1993, we discussed stabilisation targets. But now Vladimir Zhirinovskiy, the extreme nationalist, is elected to parliament, the west talks of disbursements.

Former US President Richard Nixon comes to Moscow to embrace the ex-jail birds (the leaders of last year's failed coup), who showed themselves so bloodthirsty in the recent past. This certainly confuses many people here.

Russian communists go to the US – that staunch bastion of western democracy – and lots of people are enchanted and call them social democrats. But do they read the communists' programme?

Western countries issue visas to Zhirinovskiy and even talk about taming him through embracing him. This smacks of Munich. Let's not forget his plans about nuking some nations, changing borders, washing soldiers' boots in the Indian ocean.

US President Bill Clinton's former

room-mate at Oxford, now deputy secretary of state Strobe Talbott, coins a Soviet-type slogan: "Less shock and more therapy." Many people in the west, it seems, prefer to close their eyes to the simple fact that there never was any shock therapy, ever, in Russia.

I have the feeling that the west often sees Russia through a distorted looking-glass, and sometimes applies to Russia different criteria for what makes a democracy or a normal market economy.

Today, after the agreement on the next round of financial assistance to the Russian government (via the International Monetary Fund), I again see that some in the west are misinterpreting the political situation here, and want to sacrifice economic reform for illusory political dividends.

Is it not clear that, for three months, not a single reform or even a simple economic policy measure has been enacted? Is it not clear that the west is being used to bury the remnants of the reforms? Is it not clear that a change in economic policy already affects foreign and domestic policy? Is it not clear that anti-western and nationalist attitudes are becoming more and more prevalent?

I believe that, in 1993, our relations with the west were developing in the right direction. For me, it was not so much money but moral

support that mattered. That is why when we saw, last August, that our targets had not been achieved, I was the first to alert the IMF and our government – though it would have been easy to cook the figures and get the money. We decided not to lie to ourselves and to the world.

But now that the IMF has extended the second tranche of the systemic transformation facility, on the grounds that it will be politically beneficial to the west, I say:

Western taxpayers have a right to know how their money is being spent, when they have problems of their own

lock up the advisers who give such counsel and throw away the key.

The sooner this money is handed over, the sooner we shall see a change in policy – in the wrong direction. I recall how Mikhail Gorbachev, after each new loan, would lose interest in any kind of economic reform.

The \$1.5bn is immaterial to Russia, given the scale of its problems, and would be eaten up in a matter

of minutes. Its importance is that it would be taken as a seal of approval on "corrections" to the policy.

This is now a purely political matter. The stakes are high. The idea is to abandon western-type economic policies, with western approval. Enemies of reform go against the very nature to curb credit in order to get the loan. The externals may be different on the outside – but the substance is the same. IMF representatives are bullied, made to wait for hours by nonentities in reception rooms, and then are treated to a lesson in geography, as a map is spread to show how big Russia is and therefore how much it needs special treatment.

Please do not believe western experts who claim – just as our nationalists do – that Russia is so special that nothing from the civilised world applies to it. That is stupid: inflation is inflation in any country. Those who want Russia to move more "gradually" than now should come here and try to live on an average Russian salary for two years.

Will the west be gullible or hypocritical? Will it play the game? I do not know – but I think western taxpayers have a right to know how and to what ends their money is being spent, when they have problems of their own back home.

This means that a budget should first be approved by parliament.

and the new government's track record examined. The government's performance on inflation – that is, the rate for which it is responsible, not the one it inherited from last year – starts only in May, because of the three or four-month time lag between credit policies and the inflation resulting from them. There is no valid reason to hurry before being reasonably sure that this government's new virtue is real.

I would not advise minimising the importance of the debt rescheduling. There are too many people in senior positions in the Russian government who think it patriotic to take as many loans as possible and then quietly plot about debt forgiveness and debt reduction.

In 1993, we resisted doing this, by reducing borrowings and refusing even to talk about debt forgiveness. I do not believe in compensation for local incompetence, and sometimes corruption, in matters of external finance. I think it is important for creditors to be sure that fiscal discipline is in place, and that obligations will really be honoured.

I support President Boris Yeltsin and am committed up to the hilt to the reforms. But I am sure that a weakening of the western position on stabilisation will be detrimental to my country.

The author is Russia's former deputy prime minister for finance



Boris Fyodorov: 'Lock up those advisers and throw away the key'

Samuel Brittan

Ten commandments from the OECD



Increased efficiency with lower unemployment. It usually means opening economies more to market forces.

Yet such policies are difficult to write about in a way that excites attention. It becomes either a matter of general slogans, or a mass of industry and country detail of numbing boredom from which one cannot generalise.

The secretariat of the 24-nation Organisation for Economic Co-operation and Development has thus performed a service in publishing an overall appraisal (*Assessing Structural Reform: Lessons for the Future*). It contains 10 lessons from experience, to give the subject a sharper focus.

It is still not free of OECD-

speak – perhaps the cloudy terminology is an attempt to avoid stirring up opposition from politicians who have made a career out of hostility to market forces. I can perform a slight service by translating the dialect. In what follows, the sentences in heavy type are the OECD's own words:

1. Lack of attention to incentives can lead to large costs.

This means many kinds of intervention can create rewards for those who are ingenious in getting around them. For example, credit controls have been worn down by new non-bank institutions, falling outside the scope of the regulations, that have met customer needs.

2. Changed circumstances can turn reasonable policies into costly ones.

In other words, a programme to buy off interest groups can become prohibitively expensive if circumstances change. The main example is agriculture. Competitors from outside Europe have depressed world

prices and increased the cost of European farming support.

3. Delaying reform because of vested interests can increase transition costs.

The longer you delay, the more interest groups become dependent on protection and the more expensive it is to buy them off. The US-Japan voluntary car export restraint agreement led to a transfer from American consumers to producers of \$2.6bn in 1984.

4. International integration cannot be avoided and will help improve efficiency by inhibiting rent seeking and

promoting competition.

This mouthful means producers cannot reliably protect themselves by tariffs and quotas. Overseas competitors will usually get round them by direct investment, joint ventures and so on. In the meantime, because state aid has been concentrated in key sectors – such as agriculture, steel, shipbuilding and textiles – western economies have been given a perverse twist towards activities that should be fading into the sunset.

5. Adjustment costs need to be recognised.

The costs of reform are concentrated on small, noisy groups and often come before the benefits. These groups often need to be, and sometimes even should be, bought off by social transfers.

6. Technological change may reduce the need for, or change the nature of, government intervention.

A good example is telecommunications which are no longer natural monopolies because there are now so many ways of transmitting information; and in broadcasting, spectrum shortage has become a

thing of the past.

7. Budget constraints can help avoid bad policies.

Citizens' dislike of extra taxes is an effective obstacle to proliferating intervention. In the UK, the biggest inhibition on the Department of Trade and Industry from trying to back "winners" and provide back-door subsidies is Treasury cash ceilings. Yet the OECD warns us not to rely too much on these constraints.

Governments were able to get away with agricultural policies costing taxpayers and consumers \$1,750bn between 1986 and

1991 partly because some costs did not appear in government budgets and were paid by consumers in prices well above world levels.

8. The service sector will increasingly be a focus for structural reform.

Reform is particularly necessary because services are more sheltered from foreign trade than manufacturing; and differences between productivity in different countries are much bigger in some service sectors than in industry.

9. Non-economic factors can influence the nature and speed of reform.

This refers to the need to sell free market reforms, which are not always immediately attractive to the electorate. Former New Zealand Labour prime minister David Lange did so in the 1980s by combining it with radical slogans about a non-nuclear south Pacific. Lady Thatcher did it in the UK with the almost opposite technique of allying free markets with national self-assertion. We

shall soon know if Silvio Berlusconi has managed to sell a combination of free market reform, regional separatism and the lingering Italian desire for a strong leader.

10. There can be synergies between structural reform and macroeconomic environments.

In times of prosperity, reforms will not be undertaken because there is no apparent need. In times of depression, they may be postponed to avoid unemployment. But if these obstacles can be overcome, structural reform can help macro-economic policies. For instance, if labour markets are flexible, pay and prices adjust more quickly to monetary squeezes, and inflation can then be cured more easily and at smaller cost in temporary unemployment.

The OECD has still not discovered the secret of golden speech. Many of the examples could just as easily have gone into one category rather than another. But at least the attempt has been made.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Pension funds must heed equities volatility

From Mr Robert C Ross.

Sir, Your leader, "More or less safe pensions" (March 23), draws attention to the very important shift of emphasis in the valuation of pension fund assets. The possible introduction of a minimum solvency standard, combined with the advancing maturity of many pension funds, means that the focus is increasingly on the market value of assets rather than the assumed value of the future income streams, which have been the measure of health in the past.

The effective smoothing of stock market volatility by actuaries has allowed the average UK pension fund to invest up to 85 per cent of its assets in equities without embarrass-

ment. Many commentators have suggested that mature pension funds, in which the difference between full funding and insolvency may be modest, should reduce their equity exposure. I would broadly agree with this preliminary conclusion, and would like to draw attention to the other important investment consideration, which is where the equities should be invested.

UK pension funds invest almost 70 per cent of their equities in the UK market. About 90 per cent of the volatility in UK equities is smoothed out by the actuarial methodology. By contrast, the same methodology has virtually no impact on the volatility of international equities, le-

there is a huge bias in favour of UK equities introduced by the smoothing process.

In the new world of market values, the full impact of volatility in both UK and international equity markets will be felt by pension funds. Thus to have 70 per cent of the fund's exposure in a single market could appear very risky. Any objective analysis of the effect of international diversification, in which UK and international equities are treated consistently, will show that UK exposure should be reduced, perhaps to 50-60 per cent of total equities. The UK equity component may be lower still if the currency exposure of the international investments is hedged back to sterling.

Mr Eric Lambert's letter (March 24) is interesting in this regard. It confirms that many of the funds which his company monitors are maturing. However, I do not believe he will have observed as yet any reduction in average equity exposures or change in the split between UK and international. While it is interesting to know how the consensus invests, this does not necessarily mean it is right, nor that it is appropriate for most pension funds. It is a fantasy to believe one's position in a league table will be the prime measure of success or failure in the future.

Robert C Ross, director of consulting, Frank Russell Company, 6 Cork Street, London W1

Alternative to Treasury needed

From Peter McGregor.

Sir, I was interested to read that Sir John Banham is advocating the abolition of the Treasury ("Banham calls for Treasury abolition", March 21). When I proposed this desirable change some years ago (including in your Letters page), it was greeted with a certain amount of derision. I was not sure even that Mr Banham (as he was then) was convinced, when I put it to him during a coffee break at one of the Anglo-German Königswinter conferences in Cambridge some time in the mid to late 1980s.

I have not read his book, but I do not think that his proposed institutional arrangements would work. The Treasury should become the Ministry of Economics, and a new financially literate and numerate Ministry of Finance should deal with budgeting and control. With other much-needed tidying up of departments to produce greater focus and co-ordination, there need be no net increase in either departments or staff, and the changes would make co-ordination with other EU states simpler.

Peter McGregor, Dacre Cottage, Longworth, Oxfordshire, OX18 5EH

Charities lose out on dividend decision

From Mr A W Behrens.

Sir, BAT Industries on Thursday announced that its dividend will be paid as foreign income dividend, which means that it is now effectively a gross amount. In order to protect the position of both taxpayers and non-taxpayers, the rate has been increased from 12.2p to 15.25p.

Although this will make no difference to the vast majority of holders, charities, all of which benefit from transitional relief in respect of the change in advance corporation tax rate, will suffer. I understand the Treasury has insisted that only one rate be paid; consequently, charities will lose out, as they will be unable

to claim this relief. Surely the authorities should give further consideration to this problem.

A W Behrens, director - charities fund management, Capel-Cure Myers Capital Management, The Registry, Royal Mews Court, London EC3

Business leaders' dilemma

From Mr Graham Alexander.

Sir, Mr P V Zealander (Letters, March 17) is right about the dearth of biographies of modern business leaders. In our view, modesty may well explain the situation, but certainly not lack of interest. Some interviews we recently conducted with business leaders suggest, however, that biographies of top men and women would not (unless they were just publicising themselves) offer one single formula for creating wealth and achieving power. What they could do,

on the other hand, is to throw light on some of the real dilemmas these people face. For example, how do they resist interfering when they think they already have the answer? And how do they reconcile listening with being and appearing decisive?

It seems to be a lot more complicated than a simple list of dos and don'ts. Graham Alexander, chairman, The Alexander Corporation, 33 Brook Street, London W1Y 1AG

Energy efficiency

From Dr L G Brookes.

Sir, Energy efficiency advocates like Mr Andrew Warren (Letters, March 24) persist in depicting the normal operation of energy markets as barriers to energy efficiency. "Energy tariffs," they say, "are too low."

By what criterion? If suppliers are prepared to offer fuel at these prices and consumers to take up the offer, the market is doing its job of contributing to general economic efficiency.

It is up to energy efficiency advocates to justify setting markets aside, remembering that more efficient use is not the same thing as reduced consumption. As distinguished American economist Robert Solow has pointed out: "Factor augmentation does not mean factor saving."

L G Brookes, 16 Ipswich Road, Bournemouth BH4 9RZ

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FINANCIAL TIMES

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Monday March 28 1994

Workers' rights and free trade

For an institution which will not come into being before next year, the planned World Trade Organisation, successor to the General Agreement on Tariffs and Trade, is already accumulating an impressive workload. On top of the responsibilities vested in it by the Uruguay Round agreement, the WTO is due to be charged with reporting on trade and environmental policy. Now efforts are being made - for highly suspect reasons - to add the still more controversial question of workers' rights and labour standards.

The US has already moved to have the matter placed on the WTO agenda. Sir Leon Brittan, the European trade commissioner, says he favours a similar proposal. Though openly dubious about the merits of the case, he appears to have been swayed by growing political support for it in France and Italy, as well as in the US. He evidently fears that, if the EU ducks the issue, it could lose influence over events and put its own cohesion at risk.

Sir Leon is right to be sceptical. Workers' rights is a large and complex subject, and the arguments for linking it with trade policy are unconvincing. But the motives of the most vocal protectionists for action are too clear. Their overriding concern is to protect domestic industries by penalising low-cost foreign exporters. France, which for once views the US as a tactical ally, has given the game away by stigmatising it as "social dumping".

Labour surplus

The protectionist lobby is deluding itself. Even if it succeeded in imposing minimum labour standards on low-cost exporters, that would do little to blunt their comparative advantage or to relieve unemployment in the west. Wages in less developed countries will stay low as long as they remain poor and have a huge labour surplus. Nor would labour standards deter multinational companies from shifting investments to regions such as Asia and Latin America, since wages are typically a fraction of their overall production costs.

Furthermore, the most thriving new exporters are relatively high-wage economies such as Hong Kong, Malaysia and Singapore. The biggest threats to

western prosperity and competitiveness are manufactured at home.

The belief that trade policy can secure humanitarian goals, such as preventing forced labour, raising safety standards and entrenching the right of free association, is equally shaky. It relies heavily on the argument that trade policy offers the best prospect of exerting leverage on repressive third-world regimes, not on realistic assessment of its likely efficacy.

Increased deprivation

Repugnant as child labour or wretched working conditions are, efforts to ban them simply by imposing standards from outside could easily increase deprivation in really poor countries where no alternative legal source of family income exists. Such efforts would in any case be credible only if backed by threat of sanctions, which would risk further impoverishing third-world economies and the people the new social conditions regime is in theory designed to assist.

Real living and working standards in less developed countries will rise only if their economic welfare is first enhanced. One way is through much bigger aid and resource transfers than the west seems disposed to contemplate. A better one is to encourage the poorest countries to generate wealth by allowing them to benefit from unimpeded private capital flows into their economies and to export freely on world markets. That requires the west to keep trade barriers low, not to erect new ones.

There may nonetheless be a case for broad-ranging discussion of workers' rights in the WTO. That would raise awareness about the importance of humane working conditions, while allowing the international community to identify in an open forum what scope exists for actions which might genuinely promote the economic development of poorer countries. Placing the matter firmly in a multilateral framework could restrain industrialised countries from using labour standards as an alibi for unilateral trade discrimination, and force them to defend such measures publicly. The debate would expose self-serving protectionist arguments for what they are.

Late payment of bills

Late payment of bills is a recurrent problem for businesses across most of Europe. But it is at its worst in the UK, where delays in settling invoices have become endemic. The practice plays havoc with cashflow, kills off thousands of smaller enterprises every year and wastes immense amounts of time in chasing unpaid bills.

That much is easy to state. Finding effective ways of tackling this business headache is harder. The UK government issued a consultative paper after the November Budget exploring the options, including a statutory right to interest on overdue payments. There has been vigorous lobbying over the issue during the consultation period, which ends on Thursday. But when it comes to assessing the responses, the Department of Trade and Industry is likely to find that there is still no consensus over the use of legislation.

The Confederation of British Industry, for example, opposes legislation - a stance that is backed by its small business committee. The Federation of Small Businesses would back it only after other measures have been tried. In favour of immediate legislation are the Forum of Private Business and the Institute of Directors. Large and small businesses are on both sides of the divide.

Poor record

The arguments in favour of legislation are seductive. The UK has one of the worst records in Europe for late payment, perhaps because most other European countries have a statutory right to interest on overdue payments. A survey by Dun and Bradstreet, the business information company, says that UK companies have to wait on average 30 days longer beyond the due date than their French counterparts, the next-worst payers in Europe. The CBI says that late payment threatens the survival of one in five companies. More than £15bn of trade debts to small and medium-sized businesses are overdue at any one time, according to Lord Alexander, chairman of National Westminster bank.

The impact is greatest on smaller businesses that can least afford to press the large customers upon whom they depend for orders. They lack the resources to chase up late payments, which

Legal rights

However, it is not clear that a statutory right to interest on overdue debt is an effective remedy. Debt payment times have lengthened in some countries that have legislation, such as Germany. There, few companies exercise their legal rights because it would jeopardise their relationship with the customer. The introduction of statutory interest in the UK might simply lengthen the payment times that large companies are prepared to agree with their suppliers. European companies typically demand longer settlement dates than their British counterparts.

And if legislation is likely to be infrequently used, or sidestepped by changes in payment terms, then alternative strategies for improving payment of bills might be more effective. Government departments, for example, must now give details of their payment practices in their annual reports: larger companies might be required to do the same. A British standard on prompt payment and set standards for good practice. Trade associations could be supported in helping their members combat late payment. The DTI has already provided £20,000 to the Federation of Master Builders to pay for a helpline that advises members on how to recover debts. Guidance is also offered on how to check the creditworthiness of potential customers. More of this could be done at no great cost.

If such measures have little success, the case for a statutory right to interest would be much stronger. It would then be clear, as Lord Alexander wrote in the FT in September, that legislation was needed to change the culture. But until the alternatives have been fully tried, legislation should be avoided. A combination of publicity and peer pressure is the most attractive option for the DTI.

There is, for the first time in many months, a cheerful holiday mood at Tokyo's Narita airport. Japanese tourists wearing flowery Hawaiian shirts mingle with the sober business suited crowds, testimony to a sharp rise in foreign holiday bookings this spring, to more than twice last year's level.

Most of those holidays are being sold cheap, so travel agents are not much richer. Yet Narita's colourful tourists are among the growing number of indications in recent weeks that Japan is near the end of an economic downturn which began in mid-1991, the longest in the post-war years.

Government forecasters are understandably reluctant to predict the timing of the upturn, since some of them rejoiced at signs of recovery this time last year, which only turned out to be the heralds of a double-dip recession.

Yet many private sector forecasters, especially foreign ones, are confident that the recession, as defined by more than two consecutive quarters of decline, touched bottom in the final quarter of 1993. Then gross domestic product fell by 2.3 per cent compared with the same period in the previous year, producing full year growth of a mere 0.1 per cent, the worst figure since 1974.

The mean private sector forecast is for a gentle rebound to 0.5 per cent growth this year, propelled by a rise in consumer spending, which is at last responding to the government's four economic pump-priming packages worth a total of ¥45,000bn (\$422bn) over the past 16 months.

If the forecasts are right, this will be the first time since the war that Japan will have had a recovery led by a rise in domestic consumption alone, rather than higher industrial production in response to export demand. This means the upturn will be shallower than previous ones, says the head of a leading Japanese securities company.

Yet nobody doubts, as Mr Yasushi Mieno, governor of the Bank of Japan, told a seminar this week, that the conditions for recovery are at long last in place. "This is at least the end of the decline," adds Mr Hirohiko Okumura, chief economist at Nomura Research Institute. Whether it is the beginning of the upturn, however, is an open question, he says.

The most important green shoot to look for is industrial output, because it represents around a third of economic activity. Production fell, on an annualised basis, for a record 28 months in a row until the latest count in January. But month-on-month, January picked up slightly from December and the Bank of Japan says it expects a strong recovery in the first quarter of this year.

Mr Kagehide Kaku, the central bank's chief economist, says that if

A tentative, consumer-led economic recovery is at last in sight in Japan, says William Dawkins

Sunrise approaches after long darkness

this forecast rebound in output does occur, he expects a general recovery in the early summer.

On the strength of all this, corporate Japan is beginning to feel less gloomy about the future. Business confidence sank to the lowest recorded in this recession last November - minus 22.1 on a scale representing the percentage balance of pessimists and optimists, according to a quarterly survey by the Bank of Japan, but picked up slightly to minus 12.1 last month. A sign that companies are at last getting busier is a break in a four-month fall in the ratio of job offers to applicants. The number of jobs on offer per 100 people rose from 65 in December to 67 in January.

Average corporate profits, now in their fourth year of decline, appear to be following a similar trajectory. They fell 21.6 per cent in the year to the third quarter of 1993, but showed they might be pulling out of the curve, with a smaller 6.2 per cent decline in the fourth quarter.

Consumer demand is more vigorous. A new feature, not present in last spring's phantom upturn, is a strong recovery in housing starts, apparent since last summer. Much of this was fuelled by cheap lending from the government's Housing Loans Corporation, which provides 80 per cent of Japanese mortgages - a sign that the government's pump-priming packages are starting to take effect.

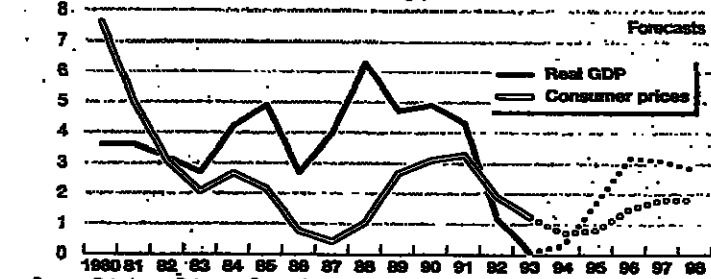
This has fed through into a rise in consumer spending - up 0.7 per cent from the third to the final quarters of last year - as new home owners have started to equip their dwellings.

Existing home owners have also started to spend more, as they relax after having paid off some debts under the late 1980s spending spree. For the first time, household personal debt fell in the year to December 1993, by ¥1,000bn to ¥340,500bn, according to SG Warburg Securities in Tokyo.

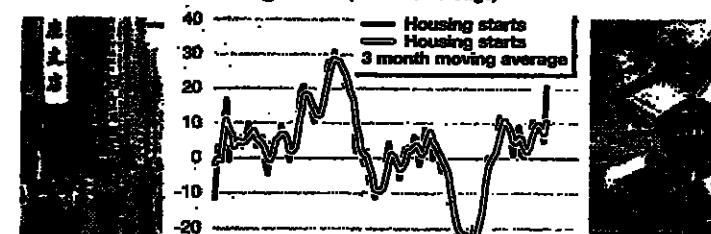
The fact that consumer spending rose faster than wages in the final quarter of last year may indicate that the cautious Japanese have sufficient confidence to chip into their high savings rate, argues Mr Robert Feldman, director of economic research at Salomon Brothers Asia. "The economy has shifted from neutral into first or

Japanese economy: turning the corner?

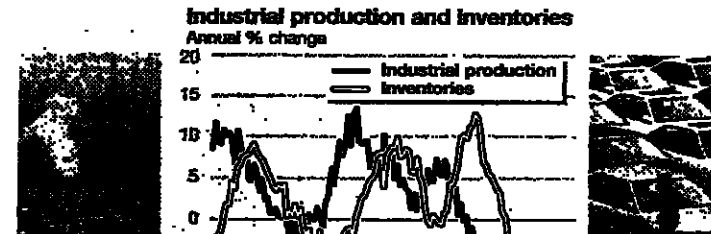
Growth and inflation (Annual % change)



Housing starts (Annual % change)



Industrial production and inventories (Annual % change)



second gear," he believes.

Yet, in the medium term, there is unlikely to be a return to the good old days. There is plenty of evidence that Japan's economy will drive out of this recession weaker than before. Most forecasters expect GDP growth to stabilise at 2 to 3 per cent annually for the rest of the decade, below the 4 per cent average for the 1980s.

The big feature in Japan's reduced ability to grow is the heavy surplus industrial capacity inherited from over-investment in the 1980s and worsened by Japanese industry's switch to cheaper production sites overseas in the 1990s. This has strained Japan's tradition

of lifetime employment, but not enough to let it slim capacity and costs on the scale of its US and European corporate competitors and hence improve its profitability in line with theirs.

New capital investment in Japanese industry is falling sharply, down 13.2 per cent between the third and fourth quarters of last year, for the ninth three-month period in a row, but unemployment has only crept up a fraction, from 2.1 per cent in 1991, the first year of the recession, to 2.5 per cent last year.

The jobless rate would double if corporate Japan fired all its surplus workforce, according to an estimate

by the Keidanren business organisation. In short, Japanese industry has cut into the fat, but not the bone.

Companies have, of course, had to restrain wage growth to be able to afford this high level of employment. The current annual national wage round will settle on a 3 per cent rise, the worst in nominal terms since the second world war. This is not as bad for consumers as it looks since inflation is much lower than the official rate of 1.3 per cent, because the government does not count discount stores, the fastest growing retail sector, in its calculations.

Many analysts believe prices might even be falling at 1 per cent a year, though a recent rise in utility bills could change that. Wage growth will, in any event, continue to be constrained by high costs, fears the Bank of Japan. "We are still straddled with a heavy adjustment burden," warns Mr Mieno, the bank's governor.

Another problem, which was not present in previous recoveries, is the risk of a credit squeeze. Banks are reluctant to lend more to companies until they have reduced the mountain of non-performing loans they acquired by lending too much on the back of over-valued property in the late 1980s. On present rates of write off, they need three to seven years - depending on the bank - to reduce bad debts to a manageable size, the finance ministry estimates.

Japan's top 21 banks admit they have up to ¥13,700bn in bad loans, though this is widely thought to be an underestimate. But even this official figure represents a bigger burden on Japan's economy than, relatively speaking, were the US banking system's debts at the depth of the American banking crisis. Japanese banks' bad debts represent 2.9 per cent of gross national product, as against the 1.8 per cent of US GNP represented by US banks' non-performing loans in mid-1991, according to the Bank of Japan.

On balance, Japan's recovery is likely to be too tentative to produce the early increase in demand which would satisfy US government pressure for a significant fall in the record current account surplus. That will keep up the pressure on the yen which, at last week's closing rate of ¥105 to the dollar, forces many companies in Japan's export-dependent economy into a loss. However, the yen is unlikely to show the startling rise in value which it did last year, one of the main reasons why that apparent recovery came to nothing.

"There is no doubt that we are at the bottom," says Mr Jesper Koll, chief economist at SG Warburg in Tokyo. "But it may turn out to be a corrugated bottom, followed by a joyless recovery."

Labour needs to prove love of markets



The UK Labour party says that it has come to love the market. Labour's leading figures proclaim they are committed to the mixed economy. But can we believe them?

The party's attitude to the government's public sector reforms shows a deep-seated and enduring hostility. Labour continues to oppose market-type reforms in public services such as health and education. Yet evidence that such reforms can improve the quality of public services is growing nationally and internationally. This should make reform attractive to a party committed to raising standards.

And market-type reforms appear to offer the only way of reconciling the conflicting pressures public services are under. Voters increasingly expect public services to be more responsive to their individual needs, as many private sector services have become. At the same time, they seem to have become reluctant to vote for higher taxes to pay for better services. So parties that promise to improve public services must explain how they will

do it without raising taxes.

Market-type reforms offer the solution by creating competition between suppliers of public services such as hospitals and schools. One immediate consequence is that the users can choose the type of service they prefer. If these organisations are rewarded according to the number of users they attract, they have incentives to meet individual needs. But competition also provides incentives for greater efficiency, especially if the suppliers are given the same sort of managerial freedom enjoyed by entrepreneurs in the private sector. More public services can be provided for the same budget if costs can be cut.

For reasons such as these, governments of left and right, from Labor Australia to the UK Conservatives, have adopted what is known in the jargon as purchaser/provider reforms. The organisations that supply public services, the providers, are separated from those that commission and pay for them, the purchasers.

The purchasers shop around among the providers to find the best value for money in internal markets. Providers compete for a share of the budget by striving

to meet the needs of the users.

The attractiveness of this strategy is hardly surprising. If market competition can raise efficiency, encourage innovation and cultivate concern for the customer in private sector services, it can provide similar benefits in the public services.

Yet Labour has repeatedly attacked market-type reforms in

services such as health and education. Typically it describes them as "commercialising" these services, distorting provision through competition and creating two-tier services. The very use of the term "commercialising" in this negative sense betrays Labour's underlying attitude to the market. The purpose of public services is not changed by the introduction of internal markets. In most cases, they remain available according to the need, free at the point of use.

The claim that the internal market distorts provision is just another way of calling for a return to central planning. It suggests that Labour still thinks bureaucrats in Whitehall, regional health authorities or town halls know best how to spend taxpayers' money.

And the accusation of a two-tier service is another way of demanding equality of outcome, something that most people are unlikely to find attractive. One of the merits of internal markets is that they produce different outcomes as providers are rewarded for meeting individual needs.

Some providers will be more successful than others in raising standards. But this does not mean creating a two-tier system forever: those that are less successful will have to improve their performance if they are not to lose customers. Such incentives are largely absent in top-down administered public services.

This is not to deny that there can be undesirable side-effects of market-type reforms. An active competition policy is needed to stop monopolists or cartels milking the taxpayer. Transaction costs can rise excessively, especially if reforms artificially separate functions with-

out introducing real competition.

The most serious fear for Labour is that such reforms will reduce equity, a key value for a party of the left. This would happen if providers began to exclude people who make greater demands on them ("cream-skimming").

But cream-skimming can be best handled within the internal market, by increasing payments for people who make greater demands on public services. This gives providers an incentive to take them on, manipulating the market intelligently to achieve desired outcomes. Sadly, Labour finds it hard to think positively about how to use market forces in public services. The party's endorsement of the market economy will be hollow until it concedes that market-based reforms of public services can yield similar benefits to those generated in the private sector.

John Willman

This article is based on *Labour and the Public Services* by John Willman, published today by the Social Market Foundation, 20 Queen Anne's Gate, London SW1H 9AA. £8

Black's moves to pinkness

■ Newspaper tycoons are ambitiously energetic types, and Conrad Black, who controls the Telegraph group, is no exception. The US, Canada, Israel and Australia - he has interests there as well as the UK.

Black's interests are widespread, as is illustrated by an intriguing story only now surfacing. More than a year ago he held discussions with Enmap, the UK regional newspaper and magazine group run by Robin Miller, about launching a new British financial daily. There was even a name pencilled in to edit it - former Financial Times journalist Clive Wolman, now financial editor of the Mail on Sunday.

Word is, Black and Miller were not planning a full frontal assault on the FT, but were instead looking at a mid-market tabloid format. The idea died, apparently because it was thought not to be viable. But "never say never" might well be Black's motto...

Silent mole

■ It's the stuff of a John Le Carré novel: who is the mole within that

angust institution, the London Stock Exchange?

It's emerged that last December chairman Sir Andrew Hogg Smith who steps down on July 14 - for it is necessary to give those well-known sleuths, Kroll Associates.

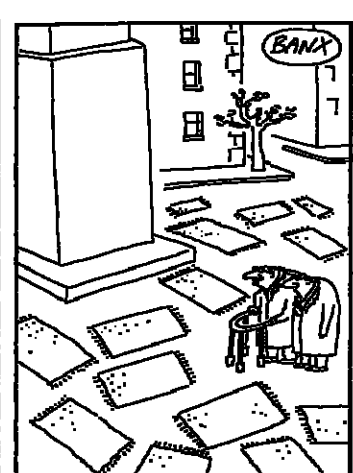
Their mission? To track down the source of a number of leaks to the press - the FT included - about sensitive high-level appointments.

Kroll snooped around but to no avail it seems. Observer's man tells us that Kroll's report does not point the finger at any individual. "Kroll had an open brief to investigate widely but found no single source. Something happened, somebody talked, but who exactly, that's a different matter." That's the trouble with moles - never talking when you want them to.

McKinsey's man

■ On the subject of sleuthing, try tackling McKinsey, the publicity-shy management consulting firm, about its new top dog. Partners of the firm have just

OBSERVER



"The Germans got to the Cenotaph before us"

US citizen, Gupta attended Harvard, ran McKinsey's Scandinavian offices for a while in the mid-1990s and has been head of the Chicago operation since 1989. What big assignments has he left? Don't even bother asking.

Mind you, reading the runes makes Gupta look an interesting choice. Names more commonly mentioned for the job had been Don Witte - head of the bigger New York office - and non-US consultants like Herbert Hensler, in charge of the German operation.

But McKinsey increasingly looks for its income outside the US, and the choice of Gupta hints at continuing that trend. Provided he survives re-election every three years, he could be around a long time.

Good friends

■ How much should be made of last week's meeting between John Major and Lady Thatcher's press secretary at Number 10, Sir Bernard Ingham? Nothing at all, says the still formidable Sir Bernard. "I go to see him from time to time as a friend of mine," he says. "I am not operating in any advisory capacity."

Quite a number of Tory MPs will think that rather a pity. With the government lurching from crisis to crisis, they are increasingly nostalgic for the smack of firm leadership that Lady Thatcher, aided by her inimitably gruff press supremo, usually provided.

Maori mover

■ One of New Zealand's more colourful characters, Dame Whina Cooper, who spent a lifetime defending Maori rights, has died at the age of 98. Born on a mud floor in a Maori

cookhouse in December 1895, she founded the Maori Women's Welfare League in the 1950s but sprang to national prominence in 1975, when - in her eighth decade - she led a protest march of 5,000 Maoris from her Northland home to Wellington's parliament. Her nightly television appearances, hobbling with a walking stick on the 650-mile trek, brought her national fame.

Maori activists later clashed bitterly with her, when she accepted a string of honours, independent to the end, she ignored her critics.

Prime Minister Jim Bolger plans to attend her funeral this week: a noble gesture, given that in 1991 she told him that his sacking of Maori affairs minister Winston Peters would bring him curses from Satan.

Midas touch

■ Britain's credit card companies may be dilatory about charging interest more in line with bank rates; but some are sensitive toward debtors.

Take the Co-operative Bank's latest leaflet, touting its Gold Visa card. It offers a "free additional card" so "you and your partner share the same credit limit". No stigma attached.

Italians go to polls as untested candidates forge new political era

By Robert Graham in Rome

Italy's 48m voters began two days of polling yesterday in the country's most unpredictable general election since democracy was restored after the second world war.

The election marks the formal end of the postwar dominance of Italian politics by the Christian Democrats and their allies, and more than 80 per cent of the candidates have no parliamentary experience.

The last election was only two years ago, but the corruption scandals which caused the collapse of the ruling parties forced a fresh poll.

The first exit polls will be announced tonight at 10pm, when polling stations close. But the interior ministry has warned

that it could be well into tomorrow before there is a clear indication of the outcome. Vote-counting has been complicated by new electoral laws approved last August.

These introduced a first-past-the-post system for 75 per cent of the seats in both houses of parliament, but retained proportional representation in revised form for the remainder. The aim was to allow more stable coalitions by encouraging the creation of alliances to fight the majority vote seats. But this has been offset by retention of the proportional lists, which are likely to reward the smaller parties.

Voters were yesterday being asked to choose between 15 main parties that had formed into three broad alliances of the left, centre and right. They also had

to master a complex voting system with three different coloured slips - one each to cover majority and proportional voting for the chamber and a single slip for the Senate.

The main protagonists are two new political groupings - the seven-party Progressive Alliance on the left and the three-party Freedom Alliance on the right, dominated by the media magnate Mr Silvio Berlusconi.

Before the ban on opinion polls during the final two weeks of the campaign, the Freedom Alliance looked set to obtain the most seats, but not an absolute majority. The alliance contains Mr Berlusconi's Forza Italia movement, the populist Northern League of Mr Umberto Bossi and the neo-fascist MSI/National Alliance of Mr Gianfranco Fini.

In the final stages of the campaign, the Progressives, led by the former communist Party of the Democratic Left (PDS) under Mr Achille Occhetto, arch-rival of Mr Berlusconi, claimed they had made gains with their superior grassroots organisation.

The centrist Italian Pact, headed by Mr Mario Segni, the pro-reform, referendum movement leader, and former Christian Democrat leader Mr Mino Martinazzoli, appeared to claw back some ground by calling on voters to give the centre parties a balancing role.

The flow of people going to polling stations was slightly below the levels of the previous general election in April 1992.

Zetfrevil writes himself into the political scenario, Page 3

Optimism grows on Japanese economy

By William Dawkins in Tokyo

Japan's economy appears to have touched the bottom of its 2½ year downturn, according to a growing number of private and public sector forecasters in Tokyo.

Their cautious optimism is based on a series of encouraging economic statistics over the past few weeks. These show a pick-up in consumer demand, a slowdown in the decline of corporate profits and a reduction in the ratio of companies feeling gloomy about the future.

Mr Yasushi Mieno, governor of the Bank of Japan - one of the most cautious forecasters - believes the conditions for a recovery are in place, though he sees no sign yet that a rebound has begun. The bank's latest

monthly economic report says the economy "appears to have stopped weakening".

Japan's green shoots, as recorded by various government departments and agencies, include a 0.7 per cent increase in consumer spending between the third and fourth quarters of last year, and a 6.2 per cent year-on-year decline in average corporate profits in the final quarter, compared with a 21.6 per cent fall in the previous three months.

There is also a fall in the relative balance between companies

feeling pessimistic and optimistic. In December, the share of companies feeling negative exceeded those feeling positive by 13.1 percentage points, down from 22.1 points in November.

There was a 0.9 per cent increase in industrial production from December to January. January output was still 3.1 per cent down on the same month in 1993, but the Ministry of International Trade and Industry and the central bank believe industrial production will show a year-on-year rise in 1994's first quarter, which they would recognise as the first sign of an upturn.

The mean forecast is for a rise in gross domestic product of 0.3 per cent this year, after the near-stagnation of 0.1 per cent in 1993, according to the latest quarterly

review of economic surveys by Consensus Economics, a private consultancy. Within this, 12 of the 19 economists questioned believe growth will be above the mean forecast.

Mr Brian Rose, senior economist at Daiwa Institute of Research, which is forecasting 0.9 per cent growth this year, said that up to December most monthly data had been negative, but from January most numbers had been positive. "The numbers could not have gone on going down for ever, but the recovery will be weak," Mr Rose said.

Even optimistic private forecasters believe the recovery will be weak, with growth stabilising at 2.3 per cent for the rest of the decade.

ANC action aims to secure poll freedom in S Africa province

By Patti Waldmeir in Johannesburg

The African National Congress said yesterday that it would escalate mass protest action aimed at ensuring free political activity in the strife-torn Natal province, where ANC and Inkatha Freedom party members clashed again at the weekend over preparations for next month's all-race elections.

South African government officials said Chief Mangosuthu Buthelezi, Inkatha leader, held a five-hour meeting with President F.W. de Klerk on Saturday, at which he gave assurances that free campaigning would be allowed in the KwaZulu homeland which he heads, and that elections could take place there despite Inkatha's poll boycott.

However, Inkatha supporters appeared to have ignored these assurances yesterday, when armed Zulus occupied a stadium in northern Natal where the ANC

was to have held an election rally.

This was the third time in succession that Inkatha had prevented a weekend election rally in Natal, where more than 100 people have died in the past week.

Officials said they hoped that Chief Buthelezi's assurances to Mr de Klerk would defuse the immediate crisis over Natal, and help persuade the ANC to defer its demands that some of the chief's powers be suspended and a state of emergency declared. However, this seems unlikely.

The ANC-dominated Transitional Executive Council, the multiparty body overseeing government in the run-up to elections, is due to meet again today to discuss the crisis in Natal province.

Mr Cyril Ramaphosa, ANC secretary-general, yesterday said South African troops should move into the region to help halt the violence. "We are going to

insist that security forces must protect the lives of our people in Natal. They must also ensure that there is free political activity."

"The ANC on its part has embarked on a programme of rolling mass action to ensure that we win our demand for free political activity," Mr Ramaphosa told a Cape Town news briefing. "That is going to escalate for as long as Buthelezi and his government do not finally agree that they will give space to political parties to operate freely, and unless he agrees the KwaZulu government will co-operate with the IEC [Independent Electoral Commission] in as far as the holding of free and fair elections is concerned," said Mr Ramaphosa.

Chief Buthelezi said at the weekend that a troop deployment "could be seen as an invasion". More than 10,000 people have died in violence in Natal over the past decade.

Opec output maintained

Continued from Page 1

cheating on their quota, a perennial problem within the organisation.

Officials say Opec ministers now realise that the present pricing policy based on supply management is insufficient. A study of various options, including the possible adoption of fixed or minimum prices, is to be presented at Opec's June meeting.

Fyodorov hits out at deal

Continued from Page 1

expected IMF approval by the end of April or the beginning of May, placed great store on the relationship which he developed during his five-day visit to Moscow with Mr Victor Chernomyrdin, the Russian prime minister, who presents himself as a leader convinced of the need for tight monetary policy.

THE LEX COLUMN

Tarnished Gilt

The gilt market really is a sorry sight. According to Salomon Brothers it has been the worst performer of all leading bond markets so far this year with a negative return in local currency terms of 7.18 per cent. Last week the Bank of England again intervened to ensure orderly markets. With long yields nudging 8 per cent it has switched to a floating rate issue for this week's auction. Clearly the UK has been caught up in worldwide bond anxiety since the Federal Reserve started raising interest rates last month. But that does not explain why it has suffered more than any other.

Part of the answer is that last year's supply problem has finally come home to roost. Heavy borrowing then was

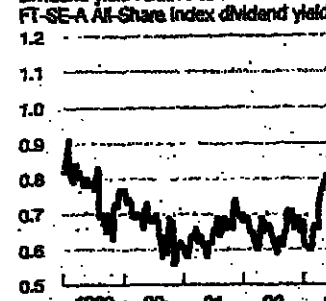
easily absorbed by speculative hedge funds and other professional dealers attracted by a particularly favourable combination of an upward sloping yield curve with falling inflation and interest rates. But it is now clear that much of this paper did not find its way into firm hands. Institutions bought only £13bn worth against issuance of about £50bn. Yields have to rise to the point where paper now being offered by its original buyers becomes attractive to long-term investors. The institutions have no particular incentive to jump in when they think they can buy the same bonds cheaper tomorrow.

Looked at from this perspective, the gilt market is clearly overvalued. Though investors have become less optimistic about inflation, the deterioration does not appear sharp enough to warrant the 20 point fall in the long end of the market since its peak in late January. Once cooler heads prevail and investors do decide that the absolute level of yields is attractive, the rebound could be quite strong, especially since the prospect of further floating rate issues will mitigate supply worries for 1994-95.

But that leaves the question of what actually represents value in the gilt market. Against expectations that inflation could fall to around 2 per cent during the summer, a yield of nearly 8 per cent looks attractive. Price rises would be unlikely to stick at these levels, though. Assuming inflation rises to the top of the government's 4 per cent target in the medium term, yields between 7 and 7.5 per cent would not look out of place. The biggest problem is that expectations of where inflation - and interest rates - will finally settle are shifting. Recent US experience is a reminder of what can happen when

Retailers Food

Dividend yield relative to the FT-SE 100 All-Share index dividend yield



Source: Datastream

the stance of monetary policy changes and the UK is considerably further along the cycle than the rest of Europe. In December, the sterling money market was discounting base rates just below 5 per cent by the end of 1994 and 5.6 per cent by the end of 1995. On Friday it was projecting rates of 5.7 and 7.7 per cent respectively.

The money market, of course, is often wrong in its predictions. But its recent behaviour is a reminder that while there may have been a structural downward shift in inflation, the cycle has not been done away with altogether. The gilt market has to contend with the realisation that inflation and interest rates are now at or near their trough. Even if it now rallies, that implies a basic shift in mood.

Food retailing

The big food retailers scared themselves and their shareholders witless last year by competing over-aggressively on price. But they appear to have re-established a more orderly grocery market in recent months. Big price promotions have stopped since J. Sainsbury stamped its foot and launched its essential-for-essentials campaign. Yet the critical question remains whether that price skirmishing represented a one-off adjustment to the discount threat or was just the first manifestation of a downward price spiral caused by over-capacity.

Wm Morrison recently soothed the market by suggesting the former. Food retailers are also trying to stabilise the situation by scaling back new store developments. Stricter planning restrictions are reinforcing the effect. There is still some scope to grow profits by nailing suppliers to the floor and cutting in-house costs. The grocers are also broadening their product

ranges and hastening diversification plans. Sainsbury's already boasts a presence in the US through Shaw's and runs Sainsbury's and Homebase in the UK too. Tesco has dipped its toe in France and a toy unit in Hungary.

Even so, the sector's earnings outlook will remain dull for a few years yet. A big re-rating therefore seems unlikely. However, there is undoubtedly great value to be had over the longer term as the cash stream remains strong and development costs tumble. An outside bidder with a lot of patience may yet be tempted to unlock it. If the grocery chains were any smaller, their own managers may have been tempted to have a go.

Property

The Department of Environment's review of commercial leases, coming to all good HMSO bookshops soon, could rattle the foundations of the UK property market. Like many British institutions, the standard 25-year lease, with its seemingly iniquitous upward-only rent reviews, has come under fire. The charge is that such leases are too rigid, unfairly weighted against the tenant and institutionalise inflation. Yet if they were changed, new property developments would become riskier, given the unpredictability of future income. Rental and capital values would move together more closely and quickly transform property from a quasi-bond into a quasi-equity investment. Landlords would offset the increased risk by demanding higher initial rents or would simply stop developing marginal properties. The DoE's urban regeneration champions would hardly appreciate their colleagues' radicalism.

The DoE would therefore be wise to conclude that the traditional lease is the worst form of commercial rental agreement apart from all the rest. Besides, it could argue that the market's invisible hand is already slowly shaping leases to new economic conditions. Leases are shortening to 10 or 15 years and often include break clauses. The abolition of confidentiality clauses would help encourage a less imperfect market. After all, markets work best where the information flow is free.

If the government still worries that upward-only rent reviews stoke inflation, it could always recommend linking rents to the retail prices index, as happens in other European countries. That would provide another incentive for its own anti-inflationary policies.

FT WEATHER GUIDE

Europe today

A new frontal system will move towards the UK. During the morning a warm front will cause drizzle over Ireland, spreading eastwards in the afternoon. An occluded frontal system will cross the North Sea, bringing cloudy skies and outbreaks of rain to the Benelux and France. Northern Spain and Portugal will have cloud but, apart from the north coast, it will remain mostly dry. Sunny periods will bring southern temperatures up to 23C. Strong high pressure will influence the Baltics and Belarus with light to gentle winds and frequent sunny periods. However, in this settled cold air, afternoon temperatures will stay below 5C. Greece will have sunny periods, but fresh northerly winds will bring showers to Turkey.

Five-day forecast

A cool and unstable westerly air flow will mean frequent showers in the UK by tomorrow. The north-west continent will be cloudy with rainy periods. High pressure over the continent will slowly shift eastwards into Russia. A vigorous depression over the Atlantic will approach the UK. During the middle of the week, there will be a risk of gale or strong gale force winds along the Irish and Scottish west coasts.

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	29	Madrid	11	Frankfurt	15
Algiers	21	Manchester	10	Geneva	14
Athens	21	Paris	11	London	10
Bahia	28	Rome	12	Amsterdam	10
Bombay	30	Stockholm	10	Brussels	10
Buenos Aires	28	Taipei	18	Copenhagen	10
Calcutta	30	Tokyo	18	Helsinki	10
Cairo	28	Winnipeg	-1	Oslo	10
Caracas	28	Zurich	10	Stockholm	10
Cardiff	11				
Chicago	10				
Cologne	11				
Dallas	13				
Dubai	28				
Dublin	11				
Edinburgh	10				
Geneva	14				
Hamburg	10				
Helsinki	10				
London	10				
Los Angeles	15				
Madrid	11				
Manila	28				
Moscow	10				
Mumbai	30				
Nairobi	28				
Paris	11				
Rangoon	28				
Rio de Janeiro	28				
Sao Paulo	28				
Seoul	10				
Singapore	30				
Stockholm	10				
Taipei	18				
Tokyo	18				
Winnipeg	-1				
Zurich	10				

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Glaxo
drug
faces new
rivalryBy Otten Glynn Owen and
Daniel Green in London

The fortunes of the world's best selling drug, Zantac, the anti-ulcer treatment made by Glaxo of the UK, will come under renewed threat tomorrow with confirmation that a new treatment involving Losec, its chief competitor made by Astra of Sweden, has been licensed in the UK.

The new treatment includes an antibiotic to kill bacteria which can cause a relapse of the ulcer. Up to one quarter of Zantac's global annual sales of \$3.5bn (\$5bn) is accounted for by patients who take it over the long term to prevent such a relapse, according to stockbroker Lehman Brothers.

The Losec-plus-antibiotic combination promises to cut sharply the need for this maintenance therapy. It gives Astra a significant head start over Glaxo, which is filing an anti-bacterial version of Zantac for regulatory approval later this year.

The licence is the latest blow to Zantac. Last week, a subsidiary of Ciba, the Swiss drug company, said it would launch an unbranded version of Zantac that appears to sidestep the company's patent protection.

Separately, SmithKline Beecham, the Anglo-US drug company, is preparing to launch non-prescription versions of Tagamet, which was Zantac's main rival for most of the 1980s.

Further bad news could be on its way with the launch next month of a drug by Japanese pharmaceutical company Takeda that works on the same principles as Losec.

The bacteria the Losec-plus-antibiotic treatment is designed to combat, *Helicobacter pylori*, are increasingly seen as central to a number of gastric disorders including ulcers.

Without eradication therapy, ulcer patients require years of regular treatment with Zantac or other stomach acid suppressing drugs to prevent ulcer recurrence and life threatening complications.

The UK licence for *H. pylori* eradication therapy gives Astra the go-ahead to promote this ulcer management approach to doctors.

Banesto shareholders approve rescue

By David White in Madrid

The contest for control of Banco Español de Crédito (Banesto), the troubled Spanish bank, this week opens in earnest following approval by shareholders of a Bank of Spain-sponsored rescue plan.

At a protracted and sometimes rowdy general meeting on Saturday, minority shareholders protested angrily against the Bank of Spain's intervention and the writing-down of their shares, but failed to muster

enough support to mount a legal challenge against the plan.

With some 73 per cent of votes delegated in advance to the provisional Banesto board, the meeting produced overwhelming support for the rescue package. Under the plan, Spain's Deposit Guarantee Fund will contribute Ptas25bn (\$2.05bn), lend Ptas15bn for four years interest-free and subscribe to Ptas10bn of new capital which it will then sell to a bank or group of banks.

The meeting also voted for joint

legal action against the previous Banesto board, dismissed by the Bank of Spain three months ago. Mr Alfredo Sáenz, the current chairman, has a month to present the action, which will seek damages for acts undertaken in breach of the law or the statutes, or without proper diligence.

J.P. Morgan, the US bank which was represented on the former board by Mr Robert Mendoza, one of its vice-presidents, delegated its vote to back the rescue plan but opposed the legal action.

Mr Mario Conde, the ousted chairman, stayed away from the meeting, which heard 15 separate proposals for legal proceedings against the former administrators.

The way is now cleared for bidding to buy the controlling interest from the Deposit Guarantee Fund. Three banks - Banco Bilbao Vizcaya, Banco Santander and Argentaria - are in the running for a deal which would give any of them a dominant position in the Spanish banking sector. According to the Bank of Spain, foreign

banks have not yet expressed interest. A price of Ptas100m has been set for the documentation in order to restrict it to serious bidders. Bids must be in by April 25, with a decision due on May 9. The winning bank will be committed to keeping at least 30 per cent for four years and to respecting Banesto's name. Mr Sáenz said this was a guarantee that Banesto would not be broken up.

Mr Sáenz forecast that the bank would be able to resume paying dividends again in 1997.

Louise Kehoe assesses Lou Gerstner's first year at the helm of computer company

IBM drags itself
out of the mire

Twelve months after his appointment as chairman and chief executive of International Business Machines, Mr Lou Gerstner is "increasingly confident" that the ailing computer company's problems can eventually be overcome.

The tough-talking New Yorker is not, however, holding out hopes of a return to the glory days of the "old IBM", when the company dominated the information technology industry and reaped huge profits on its flagship mainframe computers.

He bluntly points to IBM's ingrained bureaucratic culture as the root cause of the company's heavy losses over the past three years. IBM is "too pre-occupied with our own view of the world", he says, telling employees that they must change the way they work if they are to have a future with the company.

Without much fanfare, Mr Gerstner has, in his first year at IBM, restructured the higher management, appointed "outsiders" to top positions and, through attrition, reshaped the board of directors.

Few of these actions have caught public attention, largely because Mr Gerstner prefaces it that way. A newcomer to the computer industry, he is disconcerted by the interest that IBM attracts. "I don't give a lot of speeches," he says. "My choice in everything is to say nothing and go do it."

Before a meeting with financial analysts in New York last week when he outlined his strategic plans for the com-

pany, Mr Gerstner discussed his first year at IBM.

The company has been through "an economic shock the equivalent of a Los Angeles earthquake", he said. Its gross profit margins fell from more than 55 per cent in 1990 to 38 per cent last year. "When you multiply that drop by revenues of over \$82bn, you understand what has happened to this company."

IBM "no longer makes a lot of money on mainframe computers", he said. "High mainframe [profit] margins are gone" - a thing of the past. "No IBM margins are ever going to return to the levels we

'We are draining a swamp here. We are not focused on the picnic grounds across the meadow'

used to have, at least we are not planning on it."

Neither does he expect to replace mainframe profits with a new high margin product. "We do not have as part of our game plan to create a dominant position that is built on very, very high prices relative to costs," said Mr Gerstner.

"We are forcing ourselves to adopt a pessimistic view," he said, declining to predict IBM's long-term financial outlook. "We are draining a swamp here. We are not focused on the picnic grounds across the meadow."

Cutting costs was Mr Gerstner's first priority when he joined IBM and he won praise

from financial analysts for moving decisively, last July, with a \$8.9bn restructuring charge including the cost of 35,000 job cuts, to be completed by the end of 1995.

Based on current business conditions, IBM does not anticipate further lay-offs. However, Mr Gerstner sees a "goldmine" of other opportunities to cut IBM's costs through centralising purchasing, tighter inventory management, and eliminating duplication of effort in product development. He has formed several re-engineering task forces with the goal of reducing costs by \$3bn this year and a further \$1bn in 1995.

The second item on Mr Gerstner's "must do" list for his first year at IBM was to "get closer to customers". In this area he also wins high marks. "I've seen a dramatic change in the way IBM sells technology. It's a big, big difference," says Mr Bo Hedfors, senior vice-president of systems and technology at Ericsson, the Swedish telecommunications and electronics group.

Moves to lower prices for hardware and software have helped customer relations, Mr Gerstner acknowledges, but he takes credit for meeting with "literally thousands and thousands of customers" over the past 12 months.

These contacts prompted him to accelerate the retraining of IBM's sales team. Traditionally IBM's "blue suits" have been generalists, selling everything from mainframe computers to printer ribbons. To compete more effectively with the likes of Sun Microsystems in the workstation mar-



ket, or Compaq Computer in personal computers, IBM is now forming product specialist sales groups and consulting teams.

However, two other important goals set by Mr Gerstner when he joined IBM are providing more difficult to achieve: setting strategic directions and restoring employee morale.

The new IBM chairman has been widely criticised over recent months for failing to deliver a new "vision" for IBM. He brought much of this criticism on himself by declaring in July that "the last thing IBM needs right now is a vision".

"That was like telling the passengers on a rudderless ship, to keep shovelling coal into the engine and not worry about the direction they are sailing in," says Mr Bob Djurdjevic, president of Annex Research, a market research group.

At the analyst meeting Mr Gerstner revealed only what he called the "broad brush-strokes" of IBM's strategy. The company plans to unveil more details about its various product segments over the coming months, a senior IBM executive said. Still, many analysts were disappointed.

Continued on next page

Silver
price set
for record
this weekBy Kenneth Gooding,
Mining Correspondent

Silver's price this week is virtually certain to go above \$6 a troy ounce for the first time since March 1989, driven up by the large speculative commodity funds who are targeting the market.

The funds already have helped push up the price from this year's low of \$4.94 in January to \$5.70 in London on Friday. Their first target, according to dealers, is \$6 an ounce.

The same funds, including the Quantum Fund operated by Mr George Soros, the high-profile financier and currency speculator, successfully tackled the gold market about this time last year and manoeuvred the price up from a seven-year low of \$327 an ounce to more than \$400.

They are rumoured to have recently spent \$1bn to buy physical silver which they have moved from the New York Commodity Exchange (Comex) to vaults in Delaware. To give the impression that Comex stocks are falling because of heavy demand. Dealers suggest the funds are willing to spend another \$1bn in this effort.

Mr George Milling-Stanley, analyst at the Lehman Brothers financial services group in New York, said that, whereas the funds' attack on the gold price came when there was record demand for physical metal, this was not the case with silver.

"I talk to consumers every day and they are not buying more silver. There has been no genuine pick-up in industrial demand," he said.

Markets
this week

Starting on page 16

MARTIN DICKSON:
GLOBAL INVESTOR

The first-quarter results season begins in the US in a few weeks' time, and Wall Street is expecting corporate America to report strong earnings gains. Could this be a trigger for US stock markets to decouple from the bearish influence of the bond market? Page 16.

MARTIN WOLF:
ECONOMIC EYE

Exchange rates of major currencies have floated since the early 1970s. They will go on floating, because a modestly managed float is the worst possible system, except all the others. Page 16.

Bonds: Amid the ongoing weakness in global bond markets, UK gilts have continued to post the sharpest losses, rattled by fears that rising inflation may put an end to monetary easing. Page 18.

Equities: This week will bring some painful experiences for fund managers as they face up to a the outcome of the first trading quarter of the year. Page 19.

Emerging markets: Last week political unrest has raised questions over the future direction of Mexico's capital markets. Page 17.

Currencies: Sterling and the dollar will be in the spotlight after both breached key support levels last week. Page 31.

STATISTICS

Base lending rates	31
Company meetings	20
Dividend payments	20
FT-A World Indices	31
FT Guide to currencies	17
Foreign exchanges	31
London recent issues	31
London share service	31-33
Managed fund service	27-31
Money markets	31
New int bond issues	18
World stock mkt indices	28

This week: Company news

DEUTSCHE BANK

Good omens
from Bavarian
institutions

Deutsche Bank, the biggest bank in Germany - and, on some measures, the biggest in Europe - will announce its 1993 figures on Thursday. In addition to a commentary on last year's numbers, Mr Hilmar Kopper, chief executive and as such the most important businessman in Germany, will give his views on current year trading, on the economy and other issues of the day.

Deutsche will not be the first big German bank to report - Bayerische Vereinsbank and the Bayerische Hypothek- und Wechselbank, the two large Bavarian institutions, both reported last week. It will however be the first of the "big three", with Dresdner and Commerzbank holding their press conferences next week and the week after.

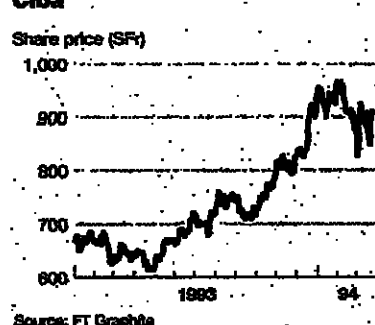
At the Bavarian banks, operating profits after provisions for bad and doubtful debts rose by about a third in each case. They enjoyed the happy combination of buoyant securities markets and strong loan growth which meant that profits climbed rapidly despite the deep recession.

This constellation of favourable circumstances will not have passed Deutsche Bank by, although its sheer size means that the growth will not be as pronounced as at smaller institutions.

Ms Susan Sternglass at Goldman Sachs predicts that net income for Deutsche Bank will rise by 12 per cent to DM2.02bn (\$1.14bn) for 1993, below an average increase of 15 per cent for the sector.

Analysts will study Mr Kopper's remarks on current year trading with interest. The bond market has taken a dive this year but in Germany's case any negative repercussions from this are likely to have been offset by profits on the sale of share stakes, for example in the Daimler-Benz group where Deutsche reduced its stake from 28 to below 25 per cent.

Ciba



Source: FT Graphix

INCHCAPE
Inevitable swings
and roundabouts

The fashion for updating analysts on trading may have taken something of a dent after Inchcape's experience in January. When the international trading group, which announces 1993 results today met stockbroking analysts, some thought it had said nothing new of any great significance.

But others came away from the meeting beaming, and cut their forecasts. In the following days the shares slumped nearly 70p from a high of 606p, and have only recently begun to recover. All will be revealed in today's numbers. There is a wide range of forecasts, although most close Inchcape watchers range from £255m (\$372m) to £270m, up from £250.1m in 1992, excluding a £16m profit on the sale of a minority stake in Toyota GB to Toyota.

Inchcape told analysts at the briefing that the second half had been similar to the first, when profits rose from £117.1m to £130.9m, in spite of a £12m higher interest charge.

With such a diverse group there have been inevitable swings and roundabouts. But on the plus side, the UK car market picked up in 1993 with Toyota increasing its market share. The business services division was also performing well in most areas.

Inchcape is expected to give a more detailed division of profits within its motors sector, which contributed 60 per cent of profits in 1992.

OTHER COMPANIES
Health check for
drugs group

Ciba, biggest of the "big three" Swiss pharmaceutical companies, reveals 1993 results tomorrow that should shed light on demand trends in continental European markets.

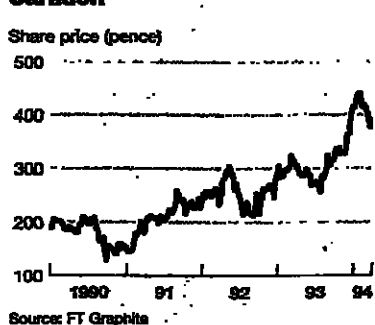
Results from the industry division - Ciba's other two main divisions are agricultural and healthcare - will be the first under the magnifying glass as investors hunt for evidence of an end to price weakness.

■ AGF: The Paris stockmarket is already braced for a weak set of results from Assurances Générales de France on Wednesday. Mr Antoine Jeannot Gaignan, the new chairman, is expected to announce a sharp fall in net profits to around FF1.5bn (\$160m) for 1993 from FF1.5bn. Yet analysts are confident that AGF will rebound in 1994, thereby boosting its prospects for a successful privatisation later this year.

■ ING: The Dutch financial services group, is expected to unveil a profit rise of at least 10 per cent when it publishes its 1993 results tomorrow. The company, one of the biggest European proponents of "bancassurance", generates roughly half its profits in banking and half in insurance.

■ Caradon: the UK building products group, which last year bought RTZ's Pillar business for £200m, is expected to show a slight rise in pre-tax profits for 1993 from £125.7m (\$193.5m) to around £128m to £130m in its reports on Wednesday. However, there will also be an exceptional profit of £100m

Caradon



Source: FT Graphix

on the sale last year of the group's 25 per cent stake in CarnaudMetalbox, the packaging group. Pillar will only have contributed for two months, but shareholders will look for clues as to how it is performing.

■ BMW: By common consent, the domestic German car market is unlikely to make much headway this year, but strong revving noises are expected from BMW tomorrow. Encouraged by the US recovery, the launch of a cut-off version of its 3-Series and an upcoming new look 7-Series, it is likely to paint a bullish picture of 1994 prospects - not least to dress the window for its oncoming rights issue.

■ Metallgesellschaft: Plenty of noise can also be expected at today's annual meeting of the metals and engineering group recently dragged from the brink by a banking consortium. While the near-catastrophic events of the recent past will exercise some, most shareholders - seated in the arguably appropriate surroundings of Frankfurt Zoo - are likely to want to hear more on restructuring plans.

Companies in this issue

Amertech	15	Foster's	15	Publicis	15
Appleyard	14	GIB	15	Quicks	14
Astra	14	Giddings & Lewis	14	Resort Hotels	14
BHP	15	Glaxo	15	Siemens	15
Banesto	13	IBM	15	Stable Farm	15
Bavaria	15	ISCF di Torino	14	Stockholm Energy	14
Commercial Union	14	Italy	15	Unipol	15
Deutsche	15	Lax Service	14	United Airlines	15
FMT	14	Oasis	14	Yorkshire Electric	14

NB-400 notebook PCs from Elonex.

Choose from two monochrome or one colour LCD screen options.

CPU options ranging from entry-level 486SX-25 to the top-end 486DX2-66.

Upgradeable VGA video adapter supports Simulscan (displays on notebook screen and external monitor at the same time).

Intelligent EPP2 parallel connector.

4MB RAM module supplied as standard. Options include 8MB, 16MB and 32MB.

Simple 'click-and-slide' mechanism makes swapping screens easy.

Use one battery pack, or two for twice as long.

Built-in PCMCIA 2.0 slot accommodates the latest credit-card-sized connectivity options.

Built-in power supply (no 'brick').

Integral trackball 'mouse' with drag lock button.

Removable, interchangeable hard disk module.

Now you don't have to compromise.

Until now, choosing a portable PC meant compromising on power and flexibility. Elonex's NB-400 notebook PC range changes all that. Designed from scratch by Elonex to beat the best in the world, the NB-400 range matches the versatility and processing speeds of many bigger and heavier machines.

The NB-400's unique modular design means that just like desktop PCs, they can evolve as technology advances and your needs change. You can simply upgrade the CPU, RAM, screen, video card, batteries or hard disk size and when you need to.

There are five NB-400 hard disk modules, for example, ranging from 80MB to a massive 450MB. These can also be used with conventional desktop PCs. A communications cable comes as standard for loading applications or trading data with other PCs. An external 3 1/2" disk drive is also available as an option.

Elonex's NB-400 notebooks offer a choice of three different interchangeable LCDs. Options include a mono backlit LCD, a low-power mono LCD with adjustable backlighting and a brilliant passive matrix colour LCD. More will be added to the range later.

NB-400 battery packs offer longer than average battery life. You can also connect directly to a car or boat battery if you wish. You might be surprised to learn that all this power and flexibility is also very affordable. In fact, at £1,445 + VAT for a fully configured 486SX-25 system, you'll find Elonex NB-400 models cost no more than ordinary notebooks from other manufacturers. Find out more about the NB-400 notebook PC range. Call your nearest Elonex office and ask for notebook sales.

London: 081-452 4444 Bradford: 0274-307226 Cumberland: 0238-452052

ELONEX
Computers that change everything.

All NB-400 models are supplied complete with a hard-wearing, padded nylon carrying case, and come ready to run with Lotus Organizer, MS-DOS 6.2 and Windows 3.11. Other notebook PCs are loaded with one year's worth of Lotus Organizer and Microsoft Office 4.0 software. NB-400 models are also available with one year's worth of Lotus Organizer and Microsoft Office 4.0 software. NB-400 models are also available with one year's worth of Lotus Organizer and Microsoft Office 4.0 software. NB-400 models are also available with one year's worth of Lotus Organizer and Microsoft Office 4.0 software.

COMPANIES AND FINANCE

Composite insurer follows the lead set by a number of its rivals

CU takes 'embedded values' line

By Andrew Jack

Commercial Union, the largest of the UK's composite insurers, has reported substantially increased profits and shareholders' funds for 1993 under results recast using an alternative accounting approach to the statutory requirements.

Under the "embedded values" technique, its life profits rose to £280m and total shareholders' funds to £3.5bn, compared with £119m and £2.5bn respectively.

CU was following the lead taken by a number of other insurers over the last few months which have begun to use techniques that they believe portray

their figures more effectively.

The Prudential Corporation and the life subsidiaries of BAT Industries both used an alternative technique known as "accruals accounting". Others, including Legal & General, have adopted embedded values.

Insurance law requires results to be reported using an approach which requires highly conservative reserving policies to ensure solvency.

Similar requirements will be made under new legislation triggered by EU directives from the current year-end.

Both embedded value and accruals accounting recognise profits as they are

made, while providing discounts for future risks.

Mr Robbie Graham, CU's deputy group actuary, said the group decided that embedded values reflected "the way we seek to manage the business".

He said the reason for delay in reporting using this technique - which has been used internally for some time - was caused by the difficulties in gathering information on such a wide range of life businesses.

The Association of British Insurers is currently considering ways in which reporting using the alternative methods may be standardised.

Receivers attacked over sale of FMT

By Andrew Baxter

A row has broken out over the sale this month of FMT, the machine tool builder which called in receivers in February, to the UK subsidiary of Giddings & Lewis, a US-owned competitor.

Mr Keith Bailey, chairman and chief executive of BSA Tools, a rival bidder for FMT, claims a chance has been missed to save the last remaining UK-owned producer of horizontal machining centres and manufacturing systems, and is unhappy with the way his bid was treated by Ernst & Young, the receivers.

Meanwhile, Mr Joe Wickham, FMT's former manufacturing director and a shareholder in the company, said the receivers have let the work down by failing to ensure that the business was sold as a going concern, as originally intended. But Mr Alan Bloom, the receiver, has strongly defended the sale to G&L, and said Mr Bailey's bid was treated fairly.

G&L is understood to have paid about £650,000 for the FMT name and that of Kearns-Richards, along with the intellectual rights, and the profitable service, spare parts and machine rebuild business.

Mr Bailey says he would have retained a nucleus of key FMT employees and transferred final assembly of FMT machines to BSA Tools' plant, which has spare capacity.

Mr Bailey was attracted by FMT's business opportunities in China - it was close to clinching an important joint venture there. "It's a great loss, and I don't believe the best decision was reached," he said.

He is upset that G&L's bid was accepted only hours before he was due to deliver a banker's draft to clinch the purchase.

Oasis has designs on spring float with £60m valuation

By Peggy Hollinger

Michael and Maurice Bennett, the brothers who teamed up with designer Jeff Banks in the 1970s to create the Warehouse high street chain, are planning to bring their latest retail success to the market with the flotation this spring of Oasis.

A medium priced women's wear retailer, Oasis is likely to have a market value of more than £80m following the placing and public offer of about half the share capital.

The two brothers and a third board member, Mr Vivian Scott, are expected to retain most of their shares, currently totalling 60 per cent of the group. Oasis intends to use the

market to expand, although it will receive only about £2m of the flotation proceeds. It currently runs 55 shops and expects to double this number within the next three to four years.

The company is also aiming to prepare for possible acquisitions. Mr Michael Bennett, chairman, is keen to expand the Oasis concept to other fashion retailers, as well as tap into the lucrative brand licensing market around the world.

Oasis is targeted at women between the ages of 18 and 35 who prefer natural fibres and comfortable clothes.

The group was set up in the early 1980s by a husband and wife team to sell ethnic cloth-

ing, but collapsed under collapsing rents and a disastrous foray into the property market. In 1981, the Bennetts were called in. The Bennetts brothers, who had taken a stake in 1983 and begun to reposition the group, bought Oasis for £1.6m.

Since then, profits have jumped from £1.2m for the 47 weeks ended January 25 1992 to £5.7m last year, with margins weakening only slightly from 55.9 per cent to 55.7 per cent. Sales have risen in the same period from £9.6m to £23m. The group has no bank debt and cash of £4.9m.

Sponsors to the float are Robert Fleming, the merchant bank. The broker is Panmure Gordon.

Unipalm heads for market with £20m tag

By Alan Cane

Unipalm, a Cambridge-based computer communications company, is coming to market through a placing at 100p a share, valuing the company at £20.2m.

The placing is being sponsored by Henry Cooke Finance.

Some 5.9m shares are being placed on behalf of the company and just under 1m on behalf of 31, which will remain the company's largest shareholder with 15 per cent of the equity.

The placing will raise £5.9m after expenses for the company which is to be used to reduce current borrowings, redeem preference shares and pay accrued dividends.

Some £4.5m will be available to fund the sales and marketing activities of Pipex, one of the group's operating companies which provides a connection service to the Internet, an international computer network which links some 2m computers.

Forecast earnings per share for the year ended April 30 are 0.81p.

Trading in the shares begins on March 31.

Resort Hotels' listing under threat

Resort Hotels, the troubled hotel group, has four days to conclude a restructuring involving new management and a debt for equity swap, or a takeover by an existing hotel group, if it is to keep its listing, writes Simon Davies.

Resort's told shareholders in a letter this weekend that the Stock Exchange had warned it would be delisted if restructuring proposals were not submitted by March 31.

It was also revealed this weekend that the Serious Fraud Office was investigating matters relating to past management of the hotels group.

The letter follows Resort's long-delayed results for the year to April 1993, showing pre-tax losses of £71m. Mr David Tonkinson, chairman, said Resort's bankers and stockholders were supportive pending talks "with other parties".

The letter gives details on Resort's share suspension in July 1993, and the resignation this month of Mr Robert Feld, former managing director.

Mr Tonkinson said in July it had become apparent that Resort had exceeded its banking facilities, contrary to information provided by Mr Feld.

Mr Feld is accused of misleading the directors and banks, although he denies these accusations.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Allied-Lyons (UK)	Pedro Domecq (Spain)	Drinks	£739m	Allied focussing on drinks
National Westminster (UK)	Citizens First (US)	Banking	£340m	Fill-in acquisition
SCA (Sweden)	Otor Holding (France)	Packaging	£231m	Consolidating European position
Williams Holdings (UK)	Forney International (US)	Environmental controls	£34m	Third world move
Anglian Water (UK)	Fluid Systems (US)	Water services	£18.4m	Anglian's second US buy
Tesco (UK)	Global (Hungary)	Food retailing	£12m	Second Europe buy planned
Dalgety (UK)	Jaeger Participations (France)	Food	n/a	Complementary purchase
Lazard Houses (UK/US/France)	Credit Agricole-Lazard Financial Products (JV)	Financial services	n/a	Derivatives venture
Olivetti (Italy/Redgate Communications US)	JV	Electronic	n/a	Multimedia move
Linde (Germany)	Unit of Dunaferr (Hungary)	Industrial gases	n/a	State group sale

Yorkshire Elect Swedish buy

By Hugh Carnegie in Stockholm

Yorkshire Electricity, the UK utility, is set to buy a 20 per cent stake in Stockholm Energi, Sweden's third largest energy producer and supplier which is at present wholly owned by the city of Stockholm.

The two sides announced on Friday that they intended to reach full agreement by the summer, following the signing of an agreement in principle.

Yorkshire will become a significant minority shareholder in Stockholm Energi.

Stockholm Energi reported sales last year of SKr6bn (£510m), producing 6,123 gigawatt hours of electricity, 5,083 gigawatt hours of hot water-based district heating and 369 gigawatt hours of town gas. Half its output is generated by nuclear power and 45 per cent by hydro-electric power.

The company, based chiefly in the Swedish capital, returned a profit of SKr217m in

1993, but is projecting profits of about SKr1bn this year after unwinding heavy losses from debts held in foreign currency.

Stockholm city authorities decided to seek a foreign partner in anticipation of deregulation of the Swedish market. Although deregulation terms have yet to be determined by the government, Stockholm Energi said it needed new capital to meet new competition in its established market and to enable it to seek new markets for itself.

Appleyard buys five Lex dealerships

Appleyard Group, the North Yorkshire-based motor dealer, is acquiring five dealerships from Lex Service for £7.5m, their net asset value, writes Rebecca Rea.

The amount will be satisfied by the issue of 4.75m shares, representing 7.2 per cent of the enlarged capital.

In the 12 months to December 25, they incurred combined operating losses of £200,000 on

turnover of £40.9m.

This is the second time in less than a week that Appleyard has bought barely profitable dealerships.

On Tuesday it acquired five outlets from Whitworths Holdings for £10.2m.

Mr John Atkin, group business development director, said: "We are seeking businesses south of the M62 to become more national. We

have been very successful with our present dealerships and we hope to repeat the success with these new acquisitions."

Quicks Group, the car dealer, is selling its Birmingham Vauxhall dealership to Barnard (Selly Oak) for £1.08m cash.

The book value of the assets was £1.15m at March 31. In the year to December 31 the business reported a loss of £200,000.

CHINA & EASTERN INVESTMENT COMPANY LIMITED

Preliminary announcement of interim results for the six months ended 31st January, 1994.

The unaudited consolidated results of China & Eastern Investment Company Limited (The "Company") and its subsidiaries (The "Group") for the six months ended 31st January, 1994 were as follows:

	Six months ended 31st January 1994	1993	(Audited) Year ended 31st July 1993
NET ASSET VALUE (US\$000)	83,848	48,612	53,618
NET ASSET VALUE PER SHARE	4.11	2.38	2.64
Revenue			
Income from listed investments	922,867	761,048	1,725,546
Income from unlisted investments	229,740	109,400	273,500
Net gains from trading in dealing investments	91,794	15,590	71,919
Other income	41,178	42,181	95,824
	1,285,569	928,219	2,166,789
Expenses			
Investment management fees	322,786	295,865	519,205
Administrative expenses	167,747	183,663	294,942
Interest on borrowings	117,000	-	67
	607,533	479,528	814,214
Profit before taxation	678,036	448,691	1,352,575
Taxation	-	10	39
Profit after taxation	678,036	448,681	1,352,536
Final dividend	-	-	1,224,000
Profit retained	678,036	448,681	1,251,536
Earnings per share	0.053	0.022	0.066
Dividend per share	-	-	0.06
Other transfers to/from reserves			
Net profit on disposal of investments	4,676,005	1,174,795	2,518,671
Income/(expense) on valuation of investments	24,676,414	(2,580,680)	1,601,317

Taxation: During the period the majority of the Group's income was not assessable to Hong Kong Profits Tax as it was generated from offshore activities and capital transactions. The estimated assessable profit has been wholly absorbed by taxation losses brought forward. The charge represents overseas withholding tax.

Earnings per share: The calculation of the earnings per share is based on profit for the period of US\$678,036 (1993: US\$448,681) and on 20,400,000 shares (1993: 20,400,000) in issue.

Analysis of net assets as at 31st January, 1994

	Assets US\$000	% of net assets
Investments		
Hong Kong	74,14	88.4
People's Republic of China	11,97	14.2
Other countries	0.83	1.1
Net current liabilities	(13,09)	(3.7)
	83.85	100.0

Review of operations

At 31st January, 1994 the net assets of the Company were US\$83.85 million (US\$4.11 per share) an increase of 73% and 56% respectively when compared to 31st January, 1993 and 31st July 1993.

The investment managers took advantage of relatively low interest rates and borrowed US\$5 million in September 1993 in anticipation of the re-rating of the Hong Kong market, and in further US\$3 million in November. In January 1994 the gearing level was reduced to US\$3 million as profits were taken in view of the substantial rise that had taken place in the market during the fourth quarter of 1993.

In the six months to 31st January, 1994 profits attributable to shareholders were US\$678,036 compared to US\$448,681 for the corresponding period. This represents an increase of some 51%, which is a creditable achievement given the additional costs incurred in respect of the borrowings referred to above.

The Company's direct exposure to China was increased significantly during the period under review with investments in 'B' and 'H' shares standing at US\$11.97 million and US\$2.90 million respectively at 31st January, 1994. The aggregate of these investments represented 17.7% of net assets at 31st January, 1994 and 31st July, 1993 the comparable figures were 5.0% and 4.7% respectively.

During 1994 the flow of 'B' and 'H' shares is expected to continue as the PRC's requirement for foreign capital continues to grow. We are well placed to take advantage of these new investment opportunities.

To date the Company has not invested in Taiwan, partly due to the restrictions on direct foreign investment and the lack of attractive indirect opportunities. As the Taiwanese authorities have eased these restrictions your investment managers have in March increased the Company's exposure to the Chinese economy by investing directly in Taiwanese securities.

With China the fastest growing economy in the region and its appetite for capital unabated and the re-rating of the Hong Kong stock market expected to continue, the Board of Directors continue to look to the future with confidence.

Dividend

It is not the Company's present policy to declare interim dividends. The Board will consider in the light of the full year's results the appropriate dividend to recommend to shareholders.

Redemption, purchase or cancellation of shares

There was no redemption, purchase or cancellation of shares by the Company or its subsidiaries during the six months ended 31st January, 1994.

Interim report

It is expected that the full interim report will be sent to shareholders on 15th April, 1994. It will be made available to the public at the Company's Registered Office: 8th Floor, Prince's Building, Hong Kong and its U.K. Transfer Agent: Barclays Registrars Ltd, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

By Order of the Board
G.W. Hopkinson
Company Secretary
25th March, 1994

IBM drags itself out of the mire

Continued from previous page

The most important "strategic imperative", Mr Gerstner said, was to exploit IBM's technology better than in the past. Although the company has invented many of the basic technologies used in the computer industry, it has often seen competitors take advantage of them faster. To speed technology to market, IBM will "make bets earlier" on which technologies to develop, eliminating costly duplication and the "great debates within IBM over alternative solutions" that have slowed product introductions in the past, he said. But this could increase IBM's risks of backing the wrong horse and eliminate some of the competitive advantages that the company has previously gained from its bigger size and resources.

IBM is also expanding its efforts to license technology to other companies, rather than seeing it cloned. Royalty income from licensing agreements has doubled in the past two years to almost \$500m. All of these profits can be ploughed back into research, Mr Gerstner says. He has also accelerated a "massive redeployment of development money" away from mainframe computers towards development of technology and soft-

ware for client/server computers and networks.

IBM's failure to make this shift earlier "is the single most important mistake IBM has made in the past decade", acknowledged Mr Gerstner. The company is overhauling its entire product line to meet growing demands for networked computers that stick to industry standards.

Mr Gerstner must also demolish the rule-bound culture that many say prevents IBM from adapting more quickly to changes in the computer market. Over the past 12 months, Mr Gerstner has spent "hundreds and hundreds of hours meeting with tens of thousands of employees all over the world". A disciple of Mr Jack Welch, the chairman of General Electric, who invigorated that company's stodgy culture, Mr Gerstner has been sending shock waves through IBM with frank addresses to employees. "We don't move fast enough in this company," he chided on a visit to one US site. "This is an industry in which success goes to the swift, more than to the smart."

"We've got to become more nimble, entrepreneurial, focused, customer driven. We must become a principle-based company, rather than a procedural-based company."

However, cultural changes

must start at the top, says Mr John Jones, an analyst at Salomon Brothers, the US broking house. He praises Mr Gerstner's appointments of "outsiders" to top positions, in particular the choice of Mr Jerry York, formerly of Chrysler, as chief financial officer. "York is the kind of executive that IBM needs; somebody who will ask the tough questions and not accept the historic explanations for lack of performance."

But analysts say that Mr Gerstner needs to recruit more fresh blood. Most of Mr Gerstner's inner circle are long-time IBM executives. However, their roles within the company have been changed. Mr Jim Cannavino, long known as a maverick within the company, has been put in charge of strategy and development. Ms Ellen Hancock, who heads IBM's networking division, is also now spearheading software strategy for the whole company.

IBM's executive management committee, long the centre of power within the company, has been eliminated. In its place is the new corporate executive committee, comprising Mr Gerstner and 10 other executives, which meets several times a month to discuss strategy.

In addition, a worldwide management council, with about 35 members including

the heads of each product division and managers of regional operations, covers operational as well as strategic issues.

The IBM board of directors, loudly criticised at last year's shareholder meeting for blindly approving decisions that led the company astray, has been slimmed down over the past year.

Since Mr Gerstner's appointment, 10 of the 19 board members who appointed him have retired, or will do so next month. Yet only one new board member has been added: Mr Charles Knight, chairman of Emerson Electric. "Moulding a new board of directors is just as important as making internal changes if Gerstner's vision of tomorrow is to become reality," says Mr Djurdjevic. IBM needs to add directors representing constituencies such as its customers outside the US, he says. "The job is only half done."

Most analysts award Mr Gerstner a "gentleman's B" for his first year's performance at IBM. He has started well, they say, but failed to complete all his assignments. His lack of knowledge of the computer industry and technology is still evident, but he has clearly grasped IBM's problems. The critical test will be IBM's financial performance over the next few quarters.

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COMPANIES AND FINANCE

Italtel and Siemens unit form telecoms partnership

By John Simkins
in Milan

Italtel, the manufacturing subsidiary of Italy's state-owned telecommunications group, has concluded its long search for a foreign partner by announcing a tie-up with Siemens of Germany.

The accord, which is a further sign of cross-border moves in European telecommunications, combines the operations of Italtel and the Italian telecoms affiliate of Siemens in a new company expected to have a turnover of about L3,400bn (\$2bn) in 1994 and show strong medium-term growth. Italtel's sales totalled L2,632bn in 1993. Siemens and Italtel's holding company, the telecoms utility

Stet, will each control 50 per cent but, as the capital of Italtel is more than four times the size of its new partner, the German group is to pay an adjustment fee. Although the value of this has yet to be established, it is likely to be in the range of L1,200bn to L1,700bn. Stet is expected to buy back a 20 per cent stake in Italtel held by AT&T. The US group, Alcatel of France and Ericsson of Sweden were all considered as potential partners for Italtel.

The agreement with Siemens is seen as essential to the growth of the Milan-based Italtel, which has been restricted by a limited domestic market and saw its net profits fall to L402bn in 1993 from L133.2bn. The joint company aims to

build up exports to 40 per cent of turnover by 1996 to 1997, and to concentrate on development of Italtel's core business - production of its Linea UT digital telephone exchanges, which are in service in 18 countries. Emphasis has also been placed on the research role of Siemens in developing strategic products.

The decision on a new partner, which has been approved by Italian unions, helps to secure jobs at Italtel, which has employs more than 15,000.

It comes amid wide restructuring within the country's telecoms industry. The government, through the IRI holding group, plans to sell its 52 per cent stake in Stet by the end of this year.

Details of UAL deal with unions due today

By Patrick Harverson
in New York

United Airlines will today release details of the wage and work rule concessions that the company's employee unions accepted on Friday night when they signed the final documents on a \$5bn labour-led buy-out of the airline.

UAL's management and machinists' and pilots' unions signed the deal - which creates the largest employee-owned company in the US - after 10 days of tense negotiations. The talks had been going on since March 15, when the first deadline on concluding the buy-out passed without an agreement because at the last minute the machinists' union had balked at some of the terms of the deal.

At the time, machinists were said to have been unhappy that management and non-union employees were not accepting their fair share of concessions, and that UAL planned after the buy-out to offer newly hired non-union employees lower wages and benefits. Management and machinists, however, ironed out their differences on Friday, allowing the buy-out to go ahead.

Under the broad terms of the deal, the two unions have agreed to \$5bn worth of wage and work rule concessions over the next six years in exchange for 53 per cent of UAL's stock. The union representing the airline's 17,500 flight attendants was not involved in the buy-out negotiations because it refused to accept the concessions offered by management.

UAL's shareholders, who will vote on whether to accept the buy-out this summer, will receive \$750m in cash in the deal, which will come from the airline's current cash holdings of \$1.8bn.

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Foster's nets A\$200m from Beswick

By Nikki Tait in Sydney

Foster's Brewing, the Australian brewer which owns Courage in the UK, is to net a A\$200m (US\$142m) profit from a complex restructuring of its investment in Beswick, the joint venture company which holds 322m shares in Broken Hill Proprietary, Australia's largest industrial group.

However, the deal will also reinforce the Beswick arrangement, to BHP's longer-term benefit. Nearly one-fifth of BHP's equity will continue to be held through the joint venture, and Foster's will pledge to retain its 49.9 per cent voting interest in Beswick until the year 2010. BHP itself, which has a 50 per cent voting stake in Beswick, also "intends

to retain all of its interest".

Beswick was born out of the various bid plays which surrounded BHP in the late-1980s, and involved entrepreneurs like Mr John Elliott and the late Mr Robert Holmes à Court.

Ahead of the restructuring, the BHP shares held by Beswick equalled about 19 per cent of the steel and natural resources group's equity. In turn, Beswick was 50 per cent owned by BHP (in terms of voting rights). Foster's held 49.9 per cent and the residual interest was owned by ANZ Executors and Trustee Company.

Due to the appreciation in BHP shares since 1988, the value of the Beswick holding has increased significantly. Foster's, which has sizeable borrowings, has been keen to

realise this value. BHP, however, was unwilling to alter the Beswick ownership structure.

The restructuring accommodates these conflicting desires. Beswick has issued new convertible redeemable preference shares to all three ordinary shareholders, on a one-for-10 basis. Virtually all the "economic value" of the Beswick stakes has transferred to the new preference shares, so that the only real significance of the ordinary shares in the future is their unchanged voting rights.

Beswick plans to sell about 15m BHP shares on the stock market, in order to redeem the bulk of Foster's preference shares. This will result in a cash payment to Foster's of around A\$345m, and a net

profit to the brewing group of about A\$200m.

Foster's will continue to hold a small number of Beswick preference shares, plus the original ordinary shares. The value of that remaining holding will be A\$73m, equal to Foster's initial investment in Beswick back in 1988.

Foster's will commit itself to retaining its ordinary shares in Beswick until 2010 - compared with the previous agreed date of 1996 - but will be able to sell more of its remaining preference shares at five-year intervals.

Beswick, meanwhile, will retain 307m BHP shares. BHP said that it intended to retain all of its interest in Beswick, both ordinary and preference shares.

Italian bank raises dividend

By John Simkins

Istituto Bancario San Paolo di Torino, Italy's biggest banking group in terms of assets, is to pay a L360 a share dividend for 1993, compared with L300 for 1992, in spite of only a small improvement in net profits.

Operating profits rose by 29.9 per cent to L2,267bn (\$1.37bn), with falling interest rates reflecting favourably on bond dealings, but net profits rose

by only 1.4 per cent to L635bn. Total assets, which were 6.3 per cent higher at L1,889,900bn, take into account the merger towards the end of the year with Banca Provinciale Lombarda and Banco Lariano. The bank said that careful cost control had allowed it to absorb the costs of the merger.

However, the narrowing of interest rate differentials and debt restructuring of troubled industrial groups limited net

interest income to L3,978bn, a rise of 1.9 per cent.

Difficult economic conditions restricted loans, and provisions for bad debts totalled more than L700bn, of which L190bn is not fiscally deductible. A further L226bn of unpaid interest is unlikely to be recovered.

The ratio of bad debts to the bank's overall loans has risen from 3.3 per cent to 4.3 per cent but is below the average for the banking system.

Publicis said that the resilience of its operations outside France had helped to counter the pressures on its domestic business.

However, in spite of the downturn, the group last year expanded its French advertising activities by taking control of FCAI, which is one of the largest agencies in France and has interests in the US and other European countries.

Recession hits Publicis profits

By Alice Rawsthorn in Paris

The downturn in the French advertising industry last year triggered a fall in profits for Publicis, one of country's largest advertising agencies, which reported a 15 per cent reduction in net profits to FF126.6m (\$22m) from FF145.6m in 1992.

Publicis, like other French agencies, has been affected by the recession, which has

prompted many companies to cut their marketing budgets, and by the destabilising effect of *la loi Sapin*, the former socialist government's reform of the media buying system.

The group saw consolidated sales fall by 9 per cent to FF126.6m in 1993 from FF145.6m in 1992. However, on a strictly comparable basis the decline in sales was slightly smaller, at 4 per cent.

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Setbacks for Belgian retailers

By Gillian Tett in Brussels

The impact of the recession on Belgian retailing was highlighted last week after two of the country's largest retailers announced significant falls in annual profits.

GIB, the international retailing group and Belgium's largest private-sector employer, reported a net loss of BFR3.5bn (\$102m) last year, against a profit of BFR3.26bn in 1992.

Delhaize "le Lion" group, which has a strong presence in the US, reported 1993 net con-

solidated profits of BFR1bn, down from BFR6.3bn in 1992.

Both groups insisted that the falls were partly due to restructuring and redundancy programmes implemented in Belgium and the US. In particular, GIB said the reorganisation of its Sarmia unit had resulted in BFR5.5bn of extraordinary costs.

Meanwhile, exceptional charges arising from the closure of 88 Food Lion supermarkets in the US in 1994 reduced Delhaize's profits by BFR1.6bn.

Nevertheless, broadly flat

sales and turnover also eroded profits.

Sales in GIB's European hypermarket and supermarket sector, which represent 61 per cent of total group sales, fell by 0.8 per cent last year. Although this was partly offset by 9 per cent growth in the European DIY sector, total group sales rose by only 2.2 per cent in 1993.

Delhaize's sales in Belgium rose by 2.5 per cent, to BFR93.4bn. In the US, sales in the Food Lion group rose by 5.8 per cent to \$7.6bn.

State Farm lifts estimate of earthquake loss

By Richard Waters
in New York

January's California earthquake is likely to cost State Farm, the state's biggest insurer, about \$1bn, according to the latest estimate issued by the company on Friday.

The estimate is sharply higher than the \$800m State Farm had initially predicted and ranks alongside the biggest one-off losses in the industry. It follows upward revisions made by other US insurers in recent days and takes the total insured cost of the disaster to around \$4bn.

State Farm had said earlier in the week that it expected its original estimate to be adequate. However, on Friday it said that detailed examinations had revealed more severe structural damage than had been anticipated.

The scale of the damage stemmed from the unusual nature of the earthquake, which caused the ground to move in ways not normally experienced during earthquakes in the area, it said.

Ameritech to cut staff by 6,000

By Richard Waters

Ameritech, one of the US's seven regional telephone companies, announced that it would take a \$335m charge in the first quarter to cover a planned cut of 6,000 from its non-management workforce by the end of 1994.

The charge, equivalent to 60 cents a share, echoes similar one-off charges announced by

other "Baby Bells" in the past three months, among them Bell South, which set aside \$1.2bn, Nynex (\$1.6bn) and Pacific Telesis (\$578m).

The job cuts at Ameritech, from 48,000 non-management workers, reflect pressure on local telephone companies from low growth and reductions in revenues from providing local access to long-distance companies.

Ameritech's announcement on Friday came the day after accounting regulators had failed to agree on tighter rules concerning restructuring charges.

The Securities and Exchange Commission has argued that many companies are including in restructuring charges costs which should be attributed to their normal course of business.

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SERIAL NUMBERS OF BONDS DRAWN FOR REDEMPTION 10 7/8% Due 04/28/1998 (\$5,000.00 each)															
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The Markets

THIS WEEK

Global Investor / Martin Dickson in New York

Breaking the bear's chains



The first quarter results season begins in the US in a few weeks' time, and Wall Street is expecting strong earnings gains. Could this be a trigger for US stock markets to decouple from the bearish influence of the bond market of the past two months?

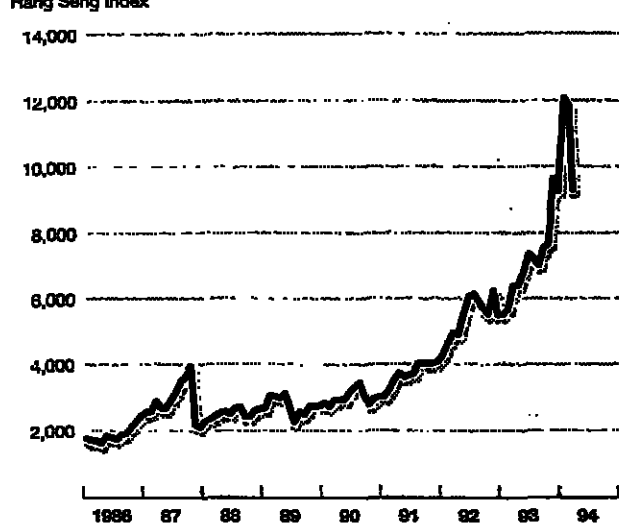
Ever since the Federal Reserve tightened monetary policy on February 4, and sent the fixed income market diving, US equity markets have taken their general direction in large measure from the jittery bond market. That said, a remarkable feature of the turmoil in global markets since February 4 has been the relative stability of US equities. The Dow Jones Industrial Average has fallen little more than 4 per cent from its all-time high, reached at the end of January, compared to a decline of about 6 per cent in Treasury bond values since the Fed tightened; the Russell 2000 index of small capitalisation stocks has outperformed the wider market, hitting several new highs this month.

There is no small irony in this, since Fed tightening was widely expected to blow a lot of froth off equity markets, while reassuring the fixed income segment that the bank had inflation firmly under control. But the big equity market corrections have been outside the US - mainly in emerging markets - as American investors' enthusiasm for foreign parts has cooled, and the resulting repatriation of funds may have helped stabilise US equities.

The US equity markets even took in their stride last week's unsettling combination of a second tightening by the Fed; the first rise in the prime lending rate in four years; a flurry of fresh political posturing in the Whitewater affair and the

Hong Kong under pressure

Hong Kong
Hang Seng Index



Source: FT Graphix

assassination of the front-runner to be the next leader of Mexico. That said, Friday afternoon's drop in the long bond through 7 per cent did send the Dow down sharply.

Stocks may be, as some Wall Street analysts maintain, only halfway towards a post-tightening correction of roughly 10 per cent, yet the market's behaviour over the past few weeks suggests considerable resilience, and potential for recovery, when stocks complete their current adjustment from a world where their primary fuel is falling interest rates to one where earnings are the driving force.

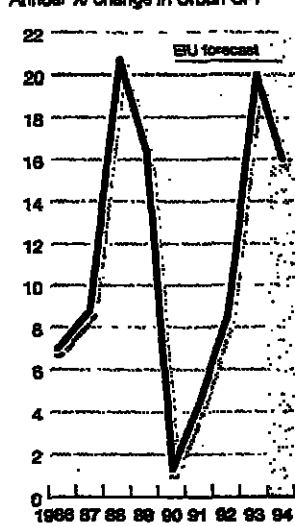
Wall Street is expecting solid double digit earnings increases both this year and in 1995 as the economy expands rapidly and companies benefit in productivity gains from the restructurings of the past few years.

Stocks would certainly benefit from a recovery of the bond market's nerve, but the rally in

Treasuries which followed last week's Fed tightening has now been replaced by anxiety about the bank's next turn of the interest rate screw, which could come on or about May 17, the date of the next policy-making Open Markets Committee meeting. Certainly, its hard to see Treasuries making much progress ahead of the employment figures for February, due out on Good Friday, though thereafter a reassessment of economic fundamentals could help it claw back some of its recent losses.

While history is no sure guide to the markets, the behaviour of stocks and bonds following the 10 initial Fed tightening moves which have occurred over the past 30 years throws up some interesting statistics. An analysis by Elizabeth Mackay at Bear Stearns shows that six months after the tightening the S&P 500 index was on average 1.3 per cent higher and a year later it was 6.1 per cent higher.

China: Inflation
Annual % change in Urban CPI



Source: Datastream/EIU

However, those averages hide some large disparities: for example, a year after the March 1981 tightening the S&P was down 16.8 per cent, while it was up by a similar amount following the February 1988 action. And on three occasions these rallies ended in bull market peaks: 1972, 1981 and 1987. In other words, post tightening rallies can end nastily.

European bonds

Could the next few weeks finally bring about the much predicted decoupling of European long bond prices from US Treasuries? European markets followed the US into a sharp decline following the Fed's February 4 tightening, much to the surprise of many analysts and hedge fund managers, and they have yet to rally, even though the economic fundamentals on the two sides of the Atlantic remain very different.

With main continental economies still in recession, the

trend is still to easier money, but the fixed income markets are still waiting for a strong lead from the Bundesbank, which has been edging rates down at a snail's pace. Last week the Bundesbank cut the key repurchase rate by 5 basis points, taking its month-long reduction to 20 basis points, and Alison Cottrell at Midland Global Markets reckons that is consistent with a 25 basis point cut in the discount rate and 50 basis points off the Lombard rate at the bank's April 28 meeting, provided the cost of living inflation figures for the month comes in at less than 3 per cent.

Hong Kong

Hong Kong has suffered one of the greatest drops of any leading equity market since the Fed tightened. But with the Crown colony in the middle of a reporting season producing strong results, has the correction run its course?

The market, in common with others in south-east Asia, enjoyed a wonderful run in 1993 as US investors focused more clearly on the region's rapid growth; but a combination of growing political tension between the US and China, and the Fed's tightening, has sent Hong Kong into sharp reverse.

Fed tightening matters partly because it has discouraged a flow of US funds into emerging markets and partly because the Hong Kong dollar is pegged to the US currency, so US rate rises feed through into the local market. On Friday, Hong Kong banks began tightening, with a 0.25 per cent rise in their base rates.

The bull case for Hong Kong is that at current levels the market is good value, compared to most other leading equity centres. Earnings are expected to grow 15 per cent or higher this year, on the back of similar increases for the past few years, and the market's prospective p/e ratio is about 15 to 16 for 1994, falling to 13 to 14 next year.

The market also remains the easiest way to place a bet on the extraordinary spurt of growth transforming mainland China. Against that, however, are several large negatives. The Hong Kong property market - a particularly large component of the Hang Seng Index - is overvalued, and could be vulnerable to a continued rise in long US rates, though for the moment Hong Kong rates remain negative in real terms.

The political and economic climate in China is also casting a long shadow. The market has learned to shrug off the dispute between the British Governor and Beijing over democratic reforms in the colony, assuming that when China takes control in 1997 it will not want to destabilise such an important economic asset.

However, this year's round of annual brinkmanship between the US and China

Total return in local currency to 24/3/94

	US	Japan	% change over period	France	Italy	UK
Cash						
Week	0.06	0.04	0.10	0.12	0.15	0.10
Month	0.29	0.19	0.51	0.53	0.68	0.43
Year	3.44	3.28	6.88	8.89	11.08	8.88
Bonds 3-5 year						
Week	-0.48	-0.06	-0.55	-0.70	-0.57	-1.00
Month	-1.47	-0.87	-0.87	-0.86	-0.97	-2.10
Year	2.59	5.43	7.53	10.83	20.34	8.42
Bonds 7-10 year						
Week	-1.08	-0.08	-1.38	-1.83	-1.33	-2.53
Month	-2.60	-1.77	-1.88	-2.69	-2.54	-4.88
Year	2.27	5.35	7.29	11.91	27.18	6.84
Equities						
Week	-1.2	-2.1	-0.1	-3.9	-2.8	-3.8
Month	0.3	0.3	2.7	-2.7	2.1	-3.9
Year	6.4	16.3	29.7	18.3	42.5	15.2

Best performing stocks from FT-A World Indices in local currency to 24/3/94

	Close	Week	% change Month	Year
Deere & Co (SA)	8.00	17.8	18.8	113.3
TV Broadcasts (HK)	33.25	17.5	18.8	104.0
Ranger Oil (Canada)	8.50	17.2	26.9	54.5
Freestate (SA)	72.00	16.1	18.6	98.6
Randfontein Est (SA)	50.50	16.1	30.3	201.5
Driefontein Gold (SA)	59.85	16.0	18.7	57.5
Southwest Hdg (SA)	163.00	15.6	45.5	158.7
Guoco Group (HK)	37.25	15.5	3.5	104.7
Famsa B (Mexico)	n.a.	14.6	-11.0	64.5
HK Aircraft (HK)	44.50	14.1	-8.3	54.5

Source: Cash & Bonds - Lehman Brothers. Equities - © NatWest Securities. The FT-A World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

over American demands for human rights concessions by Beijing, in exchange for renewal of most favoured nation trading status, has been particularly bruising. And while most analysts expect a compromise to be reached - the US needs China's good offices in the nuclear weapons confrontation with North Korea - there remains the possibility that one side or the other could make a serious misjudgement.

David Roche, an analyst at Morgan Stanley, reckons that failure to sign a deal could cut Hong Kong's GDP growth this year from the forecast 5 per cent to 3 per cent.

Also weighing on the market are domestic Chinese issues. Deng Xiaoping, China's leader since 1979 and the guiding hand behind its pragmatic eco-

nomics expansion, is 89 and on a recent appearance looked extremely frail. His death could provoke a power struggle or weaken central government control. At the same time, it is far from certain that the government can succeed with its policy of slowing growth (from 13 per cent last year to 9 per cent this year) and reigning in inflation, without a hard landing which would also hit Hong Kong's growth.

Over the long term, the Chinese market holds immense potential, but with the current economic cycle looking long in the tooth, and international investors wary, it is hard to see what is going to re-ignite the Hong Kong market in the near term, though any decline through 7,500 would present a good buying opportunity.

Economic Eye / Martin Wolf

In praise of the international monetary non-system



The floating exchange rate non-system comes of age this month. It was 21 years ago, in March 1973, that the attempt to sustain the postwar system of fixed but adjustable exchange rates was abandoned. But that is not the only anniversary. It was also 50 years ago, in July 1944, that the conference at Bretton Woods, New Hampshire, designed the system that expired in 1973.

It is timely, therefore, to ask whether the global system of dirty floating either will, or should, endure for the next 21 years, or more. The answer is that it both will and should.

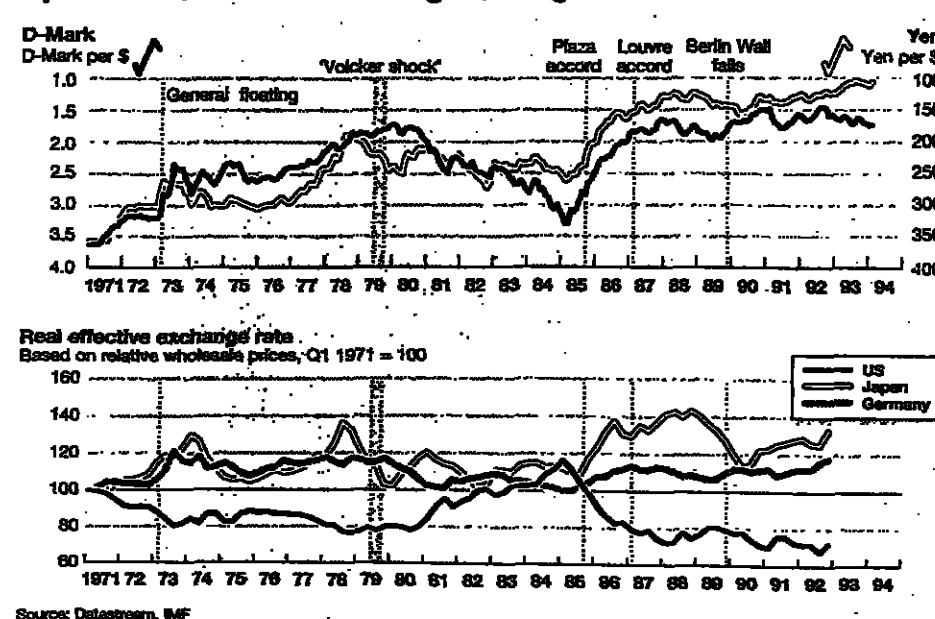
Floating exchange rates have had relatively few friends and many enemies. Yet nothing successful has been put in their place. Small countries are able to make credible commitments to fixed exchange rates, be it through currency boards (in the case of Hong Kong, for example), the ERM (in the case of the Netherlands) or just a unilateral target (in the case of Austria). Large countries find it far more difficult. Even France, most devoted to the cause of fixed exchange rates of the members of the group of seven leading industrial countries, had to concede 15 per cent fluctuation bands within the ERM last summer.

It looks as though the world must learn to stop worrying and love floating exchange rates. Would that be so bad?

The chart shows what has happened to exchange rates of the three major currencies - the dollar, the yen and the D-Mark - since 1971, the year when President Nixon's administration devalued the dollar, a decision that led ultimately to generalised floating. Five points emerge:

- there is a considerably amount of short term "noise" in the movement of nominal exchange rates;
- there was one huge swing in nominal exchange rates, which began in 1980 and ended in 1987;
- that swing went into reverse in early 1985, well before the celebrated meeting of the G7 finance ministers at the Plaza Hotel in New York;
- there has been a fairly close

Ups and the downs of floating exchange rates



Source: Datastream, IMF

correlation between swings in nominal and real exchange rates, although this has been less true for the D-Mark than for the other two, because Germany is shielded by the ERM; • there have now been some seven years of reasonable exchange rate stability.

This last fact explains why schemes to reform the international monetary system - common in the mid-1980s - have ceased to attract much attention today. But it also helps put the earlier dollar "hubble" in proper perspective.

Neither credible exchange rate commitments nor intervention explain the long period of relative stability, at least after 1987. This underlines the point made by Professor Max Corden of the Johns Hopkins University School of Advanced International Studies in Washington DC, in a book to be published later this year that "managed floating is not incompatible with considerable exchange rate stability".

The conditions for this are low and stable inflation in all participants and the absence of major shocks. Destabilising shocks do have to be major ones. Even the fall of the Berlin Wall resulted in only a modest appreciation of the D-Mark against the dollar, though it did lead to a meltdown in the more rigid ERM.

In the mid-1980s, the non-system looked far more erratic. Now it is possible to recognise that the ultimate cause of the rise of the dollar was an exceptionally large shock in the world's biggest economy: the tightening of monetary policy under Paul Volcker, chairman of the Federal Reserve, combined with the loosening of fiscal policy, under President Ronald Reagan.

It is also unlikely that any other exchange rate system could have coped better with such a shock. Professor Corden's book, which shows just how economic analysis ought to be used to clarify important questions for an educated general public, indicates why.

Suppose that it is accepted that the dollar had begun to overshoot seriously by 1983 and 1984, what would have been the consequences of using monetary policy to stop the trend? The likely answer, as we know from British experience with a similar bubble in 1987 and 1988, is that US inflation would have risen instead. It is possible that the total real exchange rate appreciation would then have been smaller. What is much more important is that the loss of competitiveness would have been more difficult to reverse under greater exchange rate stability. It would have required falling

prices or at the least rapidly falling inflation, rather than the depreciation of the nominal exchange rate that occurred.

Not only has the present non-system been functioning quite well for some years, it is also difficult to conceive of any workable alternatives. The fate of the ERM has demonstrated the vulnerability of any fixed exchange rate system with imperfect credibility and free capital movement. One alternative would be a credibly fixed exchange rate system, such as a currency board or, for large countries, a currency union. The only other would be a float, but the more explicitly the exchange rate is managed within the float, the greater its vulnerability to speculation.

As Professor Corden puts it, "the current laissez faire international monetary system is simply a market system, which co-ordinates the decentralised decisions reached by private and public actors and is likely to be as efficient at this as the market system within the domestic economy." In other words, floating exchange rates among major currencies offer the worst possible system, except for all the others.

* W Max Corden, *Economic Policy, Exchange Rates, and the International System* (Oxford: Oxford University Press, forthcoming).

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EMERGING MARKETS: This Week

The Emerging Investor / Damian Fraser

A sense of calm returns to Mexico

The skilful management of events by the Mexican government and confidence in continuity of economic policy enabled Mexico's stock market to avoid the crash that had been predicted after last Wednesday's assassination of Mr Luis Donaldo Colosio, presidential candidate of the governing party. On Friday, the first day of trading since the murder, the market index fell by less than 1 per cent.

The emergence of Mr Ernesto Zedillo, a former budget minister, as favourite to take over from Mr Colosio, and the \$8bn line of credit arranged with the US treasury were particularly important in reviving investor spirits after the initial panic. Mr Zedillo is from the inner circle of President Salinas's advisers that have been managing economic and social policy for the past five years. Nevertheless, the assassination of Mr Colosio, who was heavily favoured to win this August's election, comes at a moment of extreme political uncertainty for Mexico, and may exacerbate an already tense political situation. Over the past three months there has been, apart from the assassination, a peasant uprising in the state of Chiapas, the head of the country's largest bank was kidnapped, and Mr Manuel Camacho, the peace envoy in Chiapas has been rumoured to be on the verge of declaring as an independent candidate for the presidential elections.

Ten best performing stocks				
Stock	Country	Today's close	Week on week change	%
Land & Houses	Thailand	20,908	2,024	10.75
Intracom (Common)	Greece	69,153	5,552	10.49
Siam Cement	Thailand	38,648	3,417	9.70
Cifra (B)	Mexico	2,934	2,443	8.99
Puerto Rico Electric	Mexico	3,467	2,445	8.89
Telcel	Mexico	3,761	3,055	8.85
Grupo Carso	Mexico	9,624	7,775	8.78
Cifra (C)	Mexico	2,653	2,062	8.43
Advanced Info Services	Thailand	31,937	2,418	8.30
Cia Cervantes Unidas	Chile	4,685	3,340	7.87

Source: Barris Securities

Elsewhere in Latin America the immediate effect of the assassination was to depress prices, while on the jittery US stock market the Dow Jones average fell by 1 per cent. Brazil's São Paulo stock exchange fell nearly 5 per cent on Thursday, but then bounced back with a gain of 6 per cent on Friday. Local fund managers and brokers are divided about whether the assassination will have a longer term impact on the traditionally volatile Brazilian market.

The European investment community would adopt a wait-and-see attitude, with most fund managers cautious but not too worried, according to a Latin American analyst at Kleinwort Benson in London. In fact, last week's events might have the beneficial effect, he said, of getting rid of, or at least postponing, some of the more speculative new issues that had been planned for the coming months in Mexico.

Forthcoming economic data in Mexico will be closely watched. The economy is weak, having shown two successive quarters of negative growth in the second half of last year. If the political uncertainty created by the assassination shakes consumer confidence, it could threaten to choke the economic recovery, and cut the earnings growth of quoted companies.

However, several factors are working in favour of the market. Investors attributed some of the market's resilience to two decisions taken by the government. In closing the foreign exchange, stock and money markets on Thursday, the government prevented trading when the political situation was at its most tense. By arranging the line of credit with the US treasury, the finance ministry was able to make credible its commitment to defend the peso within the pre-set band.

There was also a touch of good luck. The day after Mr Colosio was assassinated, the government completed negotiations to join the Organisation for Economic Co-operation and Development. Membership of the OECD, while largely symbolic, is seen by many investors as a sign of faith in Mexico by the world's industrialised nations.

Some foreign investment houses have seen the crisis as an opportunity to buy back into the market. Mexican equities have already fallen in dollar terms by 10.2 per cent this year. Investment houses such as Goldman Sachs advised clients to buy stocks that were being sold in panic, in the expectation that when political uncertainty is resolved, stock prices will rise. Prospects for political stability, quickly returning are mixed. Mr Colosio's assassination raised the spectre of turmoil as the ruling party chose its new presidential candidate. Yet in the longer run, some analysts argue, the killing might reduce political risk.

Their belief is that Mr Colosio's death will cause the country to unite around the ruling Institutional Revolutionary Party and its new presidential candidate. He, it is assumed, will carry on the economic policies of President Salinas that have so far favoured by foreign and domestic investors. "The PRI is more likely to win now than before," says Mr

Jorge Mariscal, head of Latin American research at Goldman Sachs. "The tragic event will unify the party, force the opposition to tone down protests, and because Mexicans will rally around the flag, help the government."

Such a view has gained credence as Mr Zedillo emerged as the clear front-runner to succeed Mr Colosio as the presidential candidate. The killing also seems to have put an end to the political career of Mr Camacho, who had been viewed by some investors as the main destabilising force this year.

If the political uncertainty is resolved, then the key element driving the market will be earnings growth of quoted companies, says Mr Timothy Heyman of Barings Securities. Barings reckons that earnings will increase by 21 per cent this year. Given that the price/earnings ratio of the Mexican market is 14.1 - compared to 16.2 in Argentina and 20.3 in Brazil - this would leave room for strong gains this year.

Mr Robert J. Polanski of Morgan Stanley warns that earnings estimates may be cut if the assassination shakes consumer confidence. And if the recovery fails to materialise, this is sure to complicate efforts by the ruling party to win a convincing and trouble-free election this year. Additional reporting by Patrick McCurry in São Paulo and John Pitt in London

■ Turkey

The market will react today to the outcome of yesterday's crucial municipal elections, and expectations that the government will announce an austerity package.

Last week the composite index fell 9 per cent in volatile trading. Turkey was one of the best performing market performers in 1993, but has since fallen 34.5 per cent.

Ms Nur Pekin of Schroders commented that expectations were that the coalition would hold onto power in the elections.

The austerity package is likely to include a one year freeze on public expenditure.

■ Tokyo

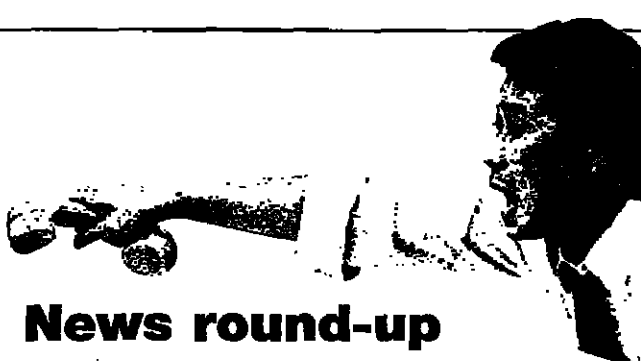
The Japan Securities Dealers Association has lifted restrictions for Japanese individual investors to trade Shanghai B stocks.

Brokers do not expect an immediate rush to buy the shares by Japanese investors, but hope that investment trust funds, which are now allowed to accept funds from individuals following the lifting of restrictions by the JSDA, will set up China funds.

"We want more investors to get accustomed to the Chinese market through investment trust funds," says Nomura Securities.

■ Colombo

The Colombo stock market has been one of this year's star performers. According to Standard



News round-up

Chartered's latest research note, at the end of last month the market was "the number one [emerging market] performer in the world".

The All share index hit a peak of 1,433 on March 1, but since then profit-taking has taken it down to 1,230.

Mr Roban Fernando, deputy general manager of the stock exchange, last week said that in less than 10 months the market had increased turnover 10 fold to about SLRs250m (\$5.2m), as foreign investors became active.

The exchange has plans to introduce electronic trading, and has set a date of the year end for its implementation. There are also plans to start a second tier market, and the possibility of an over-the-counter market dealing in India and Pakistan equities.

■ Peru

The privatisation programme will be completed by 1995, a government minister said while on a visit to Japan last week.

Mr Daniel Hokama Tokashiki, the energy and mines minister, said that it

was hoped that the process would be finished by the end of President Fujimori's term of office.

The government used to own about 220 companies, and 80 to 100 of them have been or will be liquidated or absorbed by others.

Another 80 state-owned companies have been privatised and the rest will be under private ownership by 1995.

The government, however, would remain a major shareholder in some concerns.

■ Prague

"The government has said that the Czech capital market is not yet ready for an options exchange, in spite of attempts by a Swedish group to set up an exchange similar to one operating in Slovakia.

"We understand the benefits a derivatives market can bring, but it is just too early for this type of exchange with the liquidity we have in our market," said Mr Vladimir Rudolovacek, deputy finance minister.

Further coverage of emerging markets appears daily on the World Stock Markets page.

CURRENCY MARKETS

Nervous week for sterling and dollar

Dollar and sterling investors will this week be watching foreign exchanges nervously following volatile trading at the end of last week.

Both currencies fell through key support levels, with the dollar reaching a low of DM1.6585 in London on Friday and sterling touching DM2.4890.

The trading week will be truncated with most markets closed on Good Friday. A key exception is in the US where the Bureau of Labour Statistics has resisted high-level representations and is pressing ahead with the release of key labour market data on the day.

March non-farm payrolls and hourly earnings figures will be closely watched

for evidence of inflation. There is some doubt, though, whether they can have much effect on the dollar's fortunes.

Mr Gerald Holtzman, chief international economist at Lehman Brothers, notes: "The problem with the dollar is that all plausible increases in Fed funds are already priced in."

On Friday, the December eurodollar contract on Life settled at 94.78, discounting three month rates of 5.22 per cent at the end of year. This compares with dollar three month currently trading at 3.78/3.90 per cent.

In the UK, attention will focus on Wednesday's monthly monetary policy meeting between Mr Kenneth Clarke,

the chancellor, and Mr Eddie George, the Bank of England governor.

Hopes of an interest rate cut, however, have receded following a worse than expected February retail price inflation number; the weakness of sterling and considerable pessimism about the interest rate outlook, reflected in the short sterling futures market where prices fell sharply on Friday.

Most analysts believe the market has overreacted and that another 25 basis points cut in the base rate, to 5.25 per cent, is possible.

The timing of a possible cut looks likely, however, to be delayed into the summer. Any cut in the current climate

runs the risk of undermining sterling and the gilt market even further.

The outcome of the Italian elections, expected on Tuesday, is another important event. The market appears to favour a strong, preferably centre-left, government.

A strong showing from the fascists in the south, however, could unsettle markets and push the lira below L1,000. The French franc is also in the spotlight.

Concerns about whether monetary policy is not too tight, high unemployment and rioting in the streets have led some observers to predict that the French currency could slip as low as FF3.48 to the D-Mark.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, March 25, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be different. In some cases market rates have been calculated from the foreign currencies to which they are based.

	£ STG	US \$	D-MARK	YEN
Argentina (P) (High)	2,057.40	1,707.78	1,023.89	10,930.00
Australia (A) (Low)	1,644.67	1,063.83	654.99	10,499.00
Bahamas (B) (Low)	34.234	21.204	13.207	138.110
Bangladesh (B) (Low)	8.558	5.719	3.428	35.8
Belize (B) (Low)	2.000	1.250	0.750	7.5
Bolivia (B) (Low)	1,000.00	625.00	375.00	3,750.00
Brazil (B) (Low)	1,000.00	625.00	375.00	3,750.00
Bulgaria (B) (Low)	1,000.00	625.00	375.00	3,750.00
Canada (C) (Low)	1.000	1.000	1.000	100.00
Chile (B) (Low)	1,000.00	625.00	375.00	3,750.00
China (C) (Low)	1,000.00	625.00	375.00	3,750.00
Colombia (B) (Low)	1,000.00	625.00	375.00	3,750.00
Costa Rica (B) (Low)	1,000.00	625.00	375.00	3,750.00
Cuba (B) (Low)	1,000.00	625.00	375.00	3,750.00
Czech Republic (B) (Low)	1,000.00	625.00	375.00	3,750.00
Dominican Republic (B) (Low)	1,000.00	625.00	375.00	3,750.00
Ecuador (B) (Low)	1,000.00	625.00	375.00	3,750.00
El Salvador (B) (Low)	1,000.00	625.00	375.00	3,750.00
Equatorial Guinea (B) (Low)	1,000.00	625.00	375.00	3,750.00
Ethiopia (B) (Low)	1,000.00	625.00	375.00	3,750.00
France (F) (Low)	1.000	1.000	1.000	100.00
Germany (D) (Low)	1.000	1.000	1.000	100.00
Ghana (B) (Low)	1,000.00	625.00	375.00	3,750.00
Greece (G) (Low)	1,000.00	625.00	375.00	3,750.00
Guatemala (B) (Low)	1,000.00	625.00	375.00	3,750.00
Hong Kong (H) (Low)	1,000.00	625.00	375.00	3,750.00
Hungary (B) (Low)	1,000.00	625.00	375.00	3,750.00
India (B) (Low)	1,000.00	625.00	375.00	3,750.00
Indonesia (B) (Low)	1,000.00	625.00	375.00	3,750.00
Italy (B) (Low)	1,000.00	625.00	375.00	3,750.00
Japan (Y) (Low)	1,000.00	625.00	375.00	3,750.00
Korea (B) (Low)	1,000.00	625.00	375.00	3,750.00
Malaysia (B) (Low)	1,000.00	625.00	375.00	3,750.00
Mexico (B) (Low)	1,000.00	625.00	375.00	3,750.00
Morocco (B) (Low)	1,000.00	625.00	375.00	3,750.00
Netherlands (B) (Low)	1,000.00	625.00	375.00	3,750.00
New Zealand (B) (Low)	1,000.00	625.00	375.00	3,750.00
Nigeria (B) (Low)	1,000.00	625.00	375.00	3,750.00
Philippines (B) (Low)	1,000.00	625.00	375.00	3,750.00
Poland (B) (Low)	1,000.00	625.00	375.00	3,750.00
Portugal (B) (Low)	1,000.00	625.00	375.00	3,750.00
Romania (B) (Low)	1,000.00	625.00	375.00	3,750.00
Russia (B) (Low)	1,000.00	625.00	375.00	3,750.00
Saudi Arabia (B) (Low)	1,000.00	625.00	375.00	3,750.00
South Africa (B) (Low)	1,000.00	625.00	375.00	3,750.00
Spain (B) (Low)	1,000.00	625.00	375.00	3,750.00
Sri Lanka (B) (Low)	1,000.00	625.00	375.00	3,750.00
Sudan (B) (Low)	1,000.00	625.00	375.00	3,750.00
Switzerland (B) (Low)	1,000.00	625.00	375.00	3,750.00
Taiwan (B) (Low)	1,000.00	625.00	375.00	3,750.00
Tanzania (B) (Low)	1,000.00	625.00	375.00	3,750.00
Thailand (B) (Low)	1,000.00	625.00	375.00	3,750.00
Togo (B) (Low)	1,000.00	625.00	375.00	3,750.00
Tunisia (B) (Low)	1,000.00	625.00	375.00	3,750.00
Turkey (B) (Low)	1,000.00	625.00	375.00	3,750.00
Uganda (B) (Low)	1,000.00	625.00	375.00	3,750.00
Ukraine (B) (Low)	1,000.00	625.00	375.00	3,750.00
United Kingdom (B) (Low)	1.000	1.000	1.000	100.00
United States (B) (Low)	1.000	1.000	1.000	100.00
Venezuela (B) (Low)	1,000.00	625.00	375.00	3,750.00
Zambia (B) (Low)	1,000.00	625.00	375.00	3,750.00
Zimbabwe (B) (Low)	1,000.00	625.00	375.00	3,750.00

Source: Reuters. Rates are for 100 units of the foreign currency against the pound sterling. The pound sterling is taken as 100. The dollar is taken as 100. The mark is taken as 100. The yen is taken as 100. The rates are for 100 units of the foreign currency against the pound sterling. The pound sterling is taken as 100. The dollar is taken as 100. The mark is taken as 100. The yen is taken as 100.

Abbreviations: (A) Free rate; (B) Bank rate; (C) Commercial rate; (D) Controlled rate; (E) Special rate; (F) Financial rate; (G) Market rate; (H) Official rate; (I) Preferred rate; (J) Convertible rate; (K) Parallel rate; (L) Tourist rate; (M) Currency rate against the US dollar; (N) Floating rate; (O) CIP; (P) CIP 30 days; (Q) CIP 90 days; (R) CIP 180 days; (S) CIP 360 days; (T) CIP 1 year; (U) CIP 2 years; (V) CIP 3 years; (W) CIP 4 years; (X) CIP 5 years; (Y) CIP 6 years; (Z) CIP 7 years; (AA) CIP 8 years; (AB) CIP 9 years; (AC) CIP 10 years; (AD) CIP 11 years; (AE) CIP 12 years; (AF) CIP 13 years; (AG) CIP 14 years; (AH) CIP 15 years; (AI) CIP 16 years; (AJ) CIP 17 years; (AK) CIP 18 years; (AL) CIP 19 years; (AM) CIP 20 years; (AN) CIP 21 years; (AO) CIP 22 years; (AP) CIP 23 years; (AQ) CIP 24 years; (AR) CIP 25 years; (AS) CIP 26 years; (AT) CIP 27 years; (AU) CIP 28 years; (AV) CIP 29 years; (AW) CIP 30 years; (AX) CIP 31 years; (AY) CIP 32 years; (AZ) CIP 33 years; (BA) CIP 34 years; (BB) CIP 35 years; (BC) CIP 36 years; (BD) CIP 37 years; (BE) CIP 38 years; (BF) CIP 39 years; (BG) CIP 40 years; (BH) CIP 41 years; (BI) CIP 42 years; (BJ) CIP 43 years; (BK) CIP 44 years; (BL) CIP 45 years; (BM) CIP 46 years; (BN) CIP 47 years; (BO) CIP 48 years; (BP) CIP 49 years; (BQ) CIP 50 years; (BR) CIP 51 years; (BS) CIP 52 years; (BT) CIP 53 years; (BU) CIP 54 years; (BV) CIP 55 years; (BW) CIP 56 years; (BX) CIP 57 years; (BY) CIP 58 years; (BZ) CIP 59 years; (CA) CIP 60 years; (CB) CIP 61 years; (CC) CIP 62 years; (CD) CIP 63 years; (CE) CIP 64 years; (CF) CIP 65 years; (CG) CIP 66 years; (CH) CIP 67 years; (CI) CIP 68 years; (CJ) CIP 69 years; (CK) CIP 70 years; (CL) CIP 71 years; (CM) CIP 72 years; (CN) CIP 73 years; (CO) CIP 74 years; (CP) CIP 75 years; (CQ) CIP 76 years; (CR) CIP 77 years; (CS) CIP 78 years; (CT) CIP 79 years; (CU) CIP 80 years; (CV) CIP 81 years; (CW) CIP 82 years; (CX) CIP 83 years; (CY) CIP 84 years; (CZ) CIP 85 years; (DA) CIP 86 years; (DB) CIP 87 years; (DC) CIP 88 years; (DD) CIP 89 years; (DE) CIP 90 years; (DF) CIP 91 years; (DG) CIP 92 years; (DH) CIP 93 years; (DI) CIP 94 years; (DJ) CIP 95 years; (DK) CIP 96 years; (DL) CIP 97 years; (DM) CIP 98 years; (DN) CIP 99 years; (DO) CIP 100 years; (DP) CIP 101 years; (DQ) CIP 102 years; (DR) CIP 103 years; (DS) CIP 104 years; (DT) CIP 105 years; (DU) CIP 106 years; (DV) CIP 107 years; (DW) CIP 108 years; (DX) CIP 109 years; (DY) CIP 110 years; (EZ) CIP 111 years; (FA) CIP 112 years; (FB) CIP 113 years; (FC) CIP 114 years; (FD) CIP 115 years; (FE) CIP 116 years; (FF) CIP 117 years; (FG) CIP 118 years; (FH) CIP 119 years; (FI) CIP 120 years; (FJ) CIP 121 years; (FK) CIP 122 years; (FL) CIP 123 years; (FM) CIP 124 years; (FN) CIP 125 years; (FO) CIP 126 years; (FP) CIP 127 years; (FQ) CIP 128 years; (FR) CIP 129 years; (FS) CIP 130 years; (FT) CIP 131 years; (FU) CIP 132 years; (FV) CIP 133 years; (FW) CIP 134 years; (FX) CIP 135 years; (FY) CIP 136 years; (FZ) CIP 137 years; (GA) CIP 138 years; (GB) CIP 139 years; (GC) CIP 140 years; (GD) CIP 141 years; (GE) CIP 142 years; (GF) CIP 143 years; (GG) CIP 144 years; (GH) CIP 145 years; (GI) CIP 146 years; (GJ) CIP 147 years; (GK) CIP 148 years; (GL) CIP 149 years; (GM) CIP 150 years; (GN) CIP 151 years; (GO) CIP 152 years; (GP) CIP 153 years; (GQ) CIP 154 years; (GR) CIP 155 years; (GS) CIP 156 years; (GT) CIP 157 years; (GU) CIP 158 years; (GV) CIP 159 years; (GW) CIP 160 years; (GX) CIP 161 years; (GY) CIP 162 years; (HZ) CIP 163 years; (IA) CIP 164 years; (IB) CIP 165 years; (IC) CIP 166 years; (ID) CIP 167 years; (IE) CIP 168 years; (IF) CIP 169 years; (IG) CIP 170 years; (IH) CIP 171 years; (II) CIP 172 years; (IJ) CIP 173 years; (IK) CIP 174 years; (IL) CIP 175 years; (IM) CIP 176 years; (IN) CIP 177 years; (IO) CIP 178 years; (IP) CIP 179 years; (IQ) CIP 180 years; (IR) CIP 181 years; (IS) CIP 182 years; (IT) CIP 183 years; (IU) CIP 184 years; (IV) CIP 185 years; (IW) CIP 186 years; (IX) CIP 187 years; (JY) CIP 188 years; (JZ) CIP 189 years; (KA) CIP 190 years; (KB) CIP 191 years; (KC) CIP 192 years; (KD) CIP 193 years; (KE) CIP 194 years; (KF) CIP 195 years; (KG) CIP 196 years; (KH) CIP 197 years; (KI) CIP 198 years; (KJ) CIP 199 years; (KK) CIP 200 years; (KL) CIP 201 years; (KM) CIP 202 years; (KN) CIP 203 years; (KO) CIP 204 years; (KP) CIP 205 years; (KQ) CIP 206 years; (KR) CIP 207 years; (KS) CIP 208 years; (KT) CIP 209 years; (KU) CIP 210 years; (KV) CIP 211 years; (KW) CIP 212 years; (KX) CIP 213 years; (KY) CIP 214 years; (KZ) CIP 215 years; (LA) CIP 216 years; (LB) CIP 217 years; (LC) CIP 218 years; (LD) CIP 219 years; (LE) CIP 220 years; (LF) CIP 221 years; (LG) CIP 222 years; (LH) CIP 223 years; (LI) CIP 224 years; (LJ) CIP 225 years; (LK) CIP 226 years; (LL) CIP 227 years; (LM) CIP 228 years; (LN) CIP 229 years; (LO) CIP 230 years; (LP) CIP 231 years; (LQ) CIP 232 years; (LR) CIP 233 years; (LS) CIP 234 years; (LT) CIP 235 years; (LU) CIP 236 years; (LV) CIP 237 years; (LW) CIP 238 years; (LX) CIP 239 years; (LY) CIP 240 years; (LZ) CIP 241 years; (MA) C

NEW YORK

Over the coming days, trading is likely to be dominated by the March employment report, which is due to be released on Friday. Just to make matters worse, Friday is a national holiday, so the cash market will be closed for the day. Without the opportunity to respond to the employment data

Analysts are expecting the March jobs report to show an increase in non-farm payrolls of about 200,000, and they foresee no change in the unemployment rate, which was last recorded at 6.5 per cent. With market sentiment so weak, an increase in payrolls substantially larger than 200,000 could prompt a fresh round of heavy selling.

Philip Coggan

Following the example of the US, the markets are already looking ahead to the time when the authorities will have to increase rates. Prices

Mr Nigel Richardson, head of bond research at Yamalchi International (Europe), thinks this pessimism on rates is overdue. "The gilt market is fundamentally good value but in technical terms it is looking pretty awful," he says. With no economic statistics of note, and with Easter approaching, the market is unlikely to find it easy to rally this week.

Conner Middelmann

Meanwhile, after Bundesbank president Mr Hans Tietmeyer's latest affirmation that booming M3 money supply growth cannot be ignored, "the focus will be on how the Bundesbank will act after the M3 numbers," said Mr Klaus Baader, an economist at Lehman Brothers. M3 grew at an annualised rate of 17.6 per cent in February, well above its 4 to 6 per cent target.

However, the Bundesbank is expected to continue

In spite of last week's encouraging inflation data and recent moderate wage settlements, investors remain cautious amid fears of further US interest rate tightening. "There's a significant amount of liquidity around that has to return to the market - but when that will happen, no one knows," sighed a dealer.

EMIKO HAZONO

Household expenditure for January is also forecast to show firm month-on-month and year-on-year rises, due to increased spending on furniture and household goods.

The figures come as government bonds face volatility for technical reasons. Trading of the No 164 10-year bond has risen on expectations that it will replace the No 157 as the benchmark since November. Market participants expect an announcement of the next 10-year bond auction this week, which may prompt a sell-off in the No 157 and signal a benchmark change.

Fears of rising inflation rattle gilts

"What is happening in gilts largely magnifies what is happening elsewhere," says Michael Graham McDevitt, bond strategist at Market Analysis IDEAS.

According to Salomon Brothers' World Government Bond Index, global bonds have crashed 3.01 per cent in the year to date while UK bonds have fallen by 7.18 per cent in the same period. More dramatically, gilts' 10-year yield spread over German bunds has widened

The easing scenario is partly complicated by political considerations, with local elections in May and European elections in June. "Rate cuts around that time would look politically motivated and would hurt the market," says one gilt trader.

But traders have been especially worried by a recent rise in average earnings and by the February retail prices index.

But while most observers

Most market participants feel the sell-off has been vast and overdone, but few are willing to predict when it will end. "Partly because, even at these levels, gluts elicit little buying interest," says the curiously worded situation where investors, who usually like to buy on dips, say they'll buy when the market goes up," says Mr. Richardson. According to CDEA's McDevitt, there is currently no point in trying to determine the bottom of this market. "You have to let sentiment and many investors are holding on to positions which the

"Investors who remain convinced that UK rates have to move higher... will find the issue attractive," says Mr Ily. Islam, fixed-income strategist at Merrill Lynch. But even for investors who expect to see further rate cuts, "the issue is likely to prove an attractive hedge to their current positions at the short end of the yield curve, just in case rates do go up."

10 year benchmark bond yields

Per cent

10
9
8
7
6
5

Nov Dec Jan Feb Mar

UK
Germany
France
Italy
Spain

	USA	Japan	Germany	France	Italy	UK
Discount	3.00	1.75	5.25	7.00	7.50	5.25
Overnight	3.25	2.15	5.50	6.75	8.25	6.25
Three month	2.55	2.21	5.50	6.15	8.37	5.15
One year	4.25	2.40	5.50	5.50	8.37	5.50
Five year	6.00	3.65	6.67	6.05	5.43	7.20
Ten year	6.57	4.12	6.40	6.82	5.93	7.81

■ US TREASURY BOND FUTURES (CBT) \$100,000 2 1/2% of 100%							
	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan	108-01	107-19	-0-08	108-13	107-15	529,704	354,214
Sep	107-03	106-23	-0-07	107-15	106-21	3,529	42,018
Dec	-	106-05	-0-07	106-30	106-05	17	1,777

Confidence in Latin America shaken

By contrast, the spreads on Latin American Eurobonds denominated in D-Marks barely moved, mainly because

But why has the assassina-
tion knocked not only the Mex-
ican market, but other Latin
American markets, and even

now back at levels of a year ago. This is fair value. The rest [of the rally] was indiscriminate money," said Mr. Mark Wenhammar, head of fixed income at F&C Emerging Markets.

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Leverage spread by	Bank name	Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Leverage spread by	Bank name
US DOLLARS															
Alcatel (of Canada)	250	Apr 1988	1.25	100.00	-	-	Yanacal Int (Europe)	Deutsche Bank Finance	500m	May 2004	3.25	121.59	3.024	-	Deutsche Bank London
Banqueparif	150	Mar 2001	(6.0)	100.40	-	-	Barclay/ CS First Boston	NW International Finance	200m	Apr 1999	3.375	100.80	3.174	-	Deutsche Bank London
SBM America Corp/Finco	500	Apr 1986	(1)	100.00	-	-	Swiss Bank Corp.	ESUS	-	-	-	-	-	-	-
Bank of America	100	Apr 1985	100.00	-	-	-	Parsons Capital Markets	Crédit Lyonnais de France	150	Apr 2001	6.25	98.127	6.410	-	Crédit Lyonnais
Com Finance (Lombard)	50	Mar 2004	9.375	-	-	-	CR Commercial Belgium	Generale Electric Capital Corp.	100	Apr 1999	6.125	99.994	6.222	-	GE/América Lynch Int.
Swedish Export Credit	75	Apr 1987	88	98.79	-	-	Gesellschaft Sachs Int.	Alloy Nat Treasury Services	100	Apr 1999	6.25	98.549	6.001	-	Scotiabank Gleditsie
SCORP (Gates 1984-2002)	940	Apr 2002	6.625	-	-	-	Merrill Lynch Int.	SWISS FINANCE	-	-	-	-	-	-	-
SCORP (Gates 1984-2002)	94	Apr 2000	6.625	-	-	-	Merrill Lynch Int.	Admiral	150	Mar 1999	4.50	102.125	4.022	-	Swiss Bank Corp.
DM-MARKS															
Enxco Corp	150	Apr 1998	1.00	100.00	-	-	Deutsche Bank	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank
European Investment Bank	100	Apr 2004	6.50	101.65	-	-	Deutsche Bank	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank
YEN	-	-	-	-	-	-	-	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank
Financial Services (Mitsui)	100m	Jul 1997	(6.4)	100.00	-	-	JSJ International	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank
Mitsui Bank American Corp	100m	Jan 1998	(6.4)	100.00	-	-	S&P International	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank
FRANCIS FRANCS															
Tirex	-	-	-	-	-	-	-	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank
French Motor Credit Corp.	840	Apr 1995	101	100.00	-	-	Banque Paribas	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank
Crédit Lyonnais	50m	Jan 2004	2.50	0	-	-	Swiss Bank Corp.	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank
CANADIAN DOLLARS															
Bank of Montreal	150	Dec 1988	7.75	98.975	-	-	Swiss Bank Corp.	First Union and two-vehicle vehicle trust. The yield spread over relevant government bonds at launch is negligible. The lead manager, Citicorp, provides the most detailed, quality information. Information on projects is supplied by the lead manager, Citicorp, and the two-vehicle vehicle trust.	150	Apr 1998	1.00	100.00	6.273	-	Deutsche Bank

**THANK YOU FOR YOUR
CONDOLENCES**

The family of
Late Mr. Hikmat Nashashibi
in London
and
The Management of
Arab Banking Corporation
Group
would like to thank every
person who has offered their
condolences personally, by
telephone, by cables and by fax
messages on the sad demise of
Mr. Hikmat Nashashibi

ANNUAL GENERAL MEETING

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him or her. A proxy need not be a member of the Association. A form of proxy can be obtained by writing to the Company Secretary at the Association's Registered Address.

PROVIDENT MUTUAL[illegible]

EQUITY MARKETS: This Week

NEW YORK

Frank McGurty

Wall Street's list of woes grows longer

While a second rise in short-term interest rates was never an appealing prospect for Wall Street, there was a certain comfort to be drawn from the predictability of the Federal Reserve last week. Unfortunately, the Fed's seemingly inevitable move, which came as expected on Tuesday, failed to dispel the uncertainty which has depressed share prices since monetary policy began to shift in early February.

Indeed, the sources of the market's unease seem to have multiplied. Mexico's political stability, President Clinton's political standing, tensions with North Korea and higher commercial lending rates are now competing with rising bond yields to top the list of Wall Street's worries.

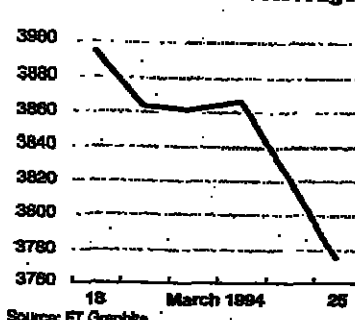
As a consequence, analysts say the odds are poor that stocks will make an early recovery from last week, when the bellwether Dow industrial index showed a net decline of 120 points.

"In the near term, the market is stuck at roughly the current levels," says Mr Steven Einhorn, equity strategist at Goldman Sachs in New York. He sees the correction in the "aging bull market" (now down 5.1 per cent from its peak of 3,978 on January 31) continuing until it becomes apparent that the slide in the bond market is complete.

The persistent influence of bonds on share prices was underlined on Friday. A relatively tranquil session on the NYSE ended in a rout when the yield on the benchmark 30-year government bond climbed above the 7 per cent barrier in the late afternoon. The return on the long bond has stayed below that level for the past 10 months.

The sell-off in stocks was all the more discouraging because the

Dow Jones Industrial Average



Source: FT Graphics

Immediate impact of the Fed's tightening was mild. Earlier fears of a sharp downturn seemed exaggerated after Wednesday's close. But the sense of relief quickly evaporated with Thursday's 48-point plunge, set off by the shot which killed the leading candidate for the Mexican presidency.

Perhaps the best hope of a rally this week lies in the approach of a long holiday weekend, which traditionally brings improved share prices.

This year, however, the Easter calendar raises an unusual set of circumstances which could very well work against the market. Although trading screens will stay quiet on Friday, the wheels of the federal bureaucracy will churn out the important economic news of the month - the March employment figures.

Mr Anthony O'Bryan, market strategist at A. G. Edwards of St Louis, expects investors to be anticipating Friday's figure earlier in the week. "There will be more people trying to protect themselves against a bad number than people trying to capitalise on a good one," he fears.

The consensus forecast of Wall Street analysts is a 200,000 gain in non-farm payrolls. Anticipation of a stronger than expected reading could rattle the inflation-sensitive Treasury market, and stocks are likely to follow.

LONDON

Terry Byland

Painful spell ahead for fund managers

This week will bring some painful experiences for fund managers as they face up to the outcome of the first trading quarter of the year. The fall of more than 9 per cent on the FT-SE 100 index over the quarter, and huge losses in government bonds, is bad enough; but the percentage loss on equities rises to nearly 12 points for those who bought at the market peak at the beginning of February.

All these factors add to the agony caused by the underlying worries about interest rate trends and the sudden lurch downwards on Wall Street on fears of turmoil in Latin America.

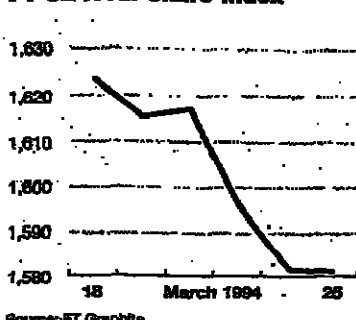
In market terms, these prospects have already been reflected in an absence of support at almost any price, although the underlying sentiment in equities is less negative than the index statistics might suggest.

The big funds are simply not going to play until after Easter and the closing of investment ledgers on the first quarter of 1994, so share prices remain at the mercy of the global bond markets; and last week brought the currency markets back on to the scene. There is little point in looking for a break in the clouds before Good Friday.

The positive view on the stock market is that rising corporate dividend and earnings trends are balancing out the swiftly fading hopes for that next cut in base rates, on which optimism was founded at the beginning of this year. At some stage, equities are going to make a convincing response to this view. But when?

The stock market bounced successfully around the FT-SE 100 3,100 mark last week, but so it did

FT-SE-A All-Share Index



Source: FT Graphics

around 3,200 on several previous occasions. Unfortunately, even after the market survives Easter, it still has to face the political future implied by the government's low standing in the opinion polls, the impending increases in personal taxation, and the forthcoming local and European elections.

However, Kleinwort Benson Securities believes that, given that the next UK general election could be delayed until April 1997, political fears may have been overdone; four years is a long time in politics.

Bargain hunters abound in these troubled conditions, and it is no surprise that they should have concentrated on sectors offering attention in terms of prospective yields. The stress is on prospective rather than historic performance, with dividend forecasts taken seriously.

Inevitably, this puts the focus on sectors badly out of favour. Pharmaceuticals collapsed last year but are showing an increase in dividend growth forecasts. Glaxo, which was badly hit again last week as Ciba-Geigy threatened a challenge to Zantac, Glaxo's anti-ulcer drug, is unlikely to languish for long.

Water stocks have taken a beating this year but are returning to favour as investors begin to prefer dividend growth stocks to fixed interest securities. Anglian and Wessex Water have been targeted by NetWest Securities.

OTHER MARKETS

FRANKFURT

BHF Bank reports on Wednesday, with analysts looking for a rise in operating profits of around 20 per cent. Hoare Govett expects that further growth in profits this year will not be fully matched at the earnings level after the bank's recent rights issue. Full-year figures come from Deutsche Bank on Thursday. The broker expects a 19 per cent rise in pre-tax profit, after extraordinary items, in spite of the bank's steep increase in allocations to risk provisioning.

ZURICH

Ciba, which last week launched an application to produce a low-cost version of Glaxo's Zantac ulcer medication in the US, is due to outline full-year sales and profit figures tomorrow. The chemicals and pharmaceuticals reoriented its forecast of an increase in net income for the full year when it unveiled an 8.3 per cent uptick in sales in the third quarter. Jelmoli, the leading department store group, is due to report tomorrow, with analysts expecting net profits up almost 200 per cent. Forbo, the floor and wall coverings group, reports today and Bobet, the packaging machinery group, produces 1993 figures tomorrow, as does Lindt & Sprungli, the fine-chocolate group.

AMSTERDAM

Full-year figures are due from ING tomorrow. The financial services group predicted a "moderate increase" in full-year profits per share when it reported an 11 per cent increase in net profit for the first nine months. Aegon, the Netherlands' second largest insurance company, reports on Thursday. Consensus estimates are for a 5 per cent fall in net annual profits.

MILAN

The country will be spending a second day at the polls today. But even after the outcome of the election becomes known, many analysts expect it could be several weeks before the final composition of a new coalition government becomes clear. Rinascente, Italy's largest retailer, reports today.

TOKYO

Investors are bracing themselves for a volatile week as the business year ends on Thursday. Companies are expected to continue profit-taking to support dwindling profits while the prospect of higher interest rates following the plunge in the bond markets is undermining confidence.

RISK & REWARD

Challenge to SEs from futures on individual shares



The world's stock exchanges, which have been slow to jump into the derivatives fray, may find a fresh challenge at their flanks if London's Life and the Sydney Futures Exchange are successful in their plans to launch futures contracts on individual shares.

The SEC and CFTC decided to prohibit these instruments in 1982, while allowing the creation of futures on broad-based stock indices. The SEC feared that futures on individual shares would open the door to price manipulation.

However, institutional money managers' appetite for ways to allocate assets efficiently and to leverage investments may force US regulators to rethink their position if overseas equity futures contracts are successful. Mr Les Hosking, chief executive of the Sydney Futures Exchange, believes the time is right for futures on a limited number of well-capitalised companies whose shares are liquid and actively traded.

"These products would be an alternative to buying and selling individual shares. Futures are cheaper, more efficient and allow more leverage," he says.

Mr Hosking has floated the idea of trading futures on the shares of three of Australia's biggest companies - mining giant BHP, News Corporation and the National Australia Bank - with the Australian Securities Commission. So far, he says, the regulator "hasn't raised issues that would indicate rejection".

In London, Mr Daniel Hodson, Life's chief executive, said similar products on a

handful of UK stocks are under preliminary consideration. If futures on individual equities catch on, they will only be suitable for the largest companies in each country. Mr Hosking says that if his three initial share futures contracts are a success, he could only expand the concept to the top 10 capitalised stocks in Australia.

However, there is nothing in Australian law to stop the SFE from trading futures on shares in companies like General Motors or reaching into emerging markets. On the US side, "The CFTC and the SEC might have something to say about US customers using the products," Mr Hosking says.

Fortunately for the SFE, the Australian companies being considered for futures contracts have not balked at the idea. While their blessing is not technically necessary, their endorsement is important. Mr Hosking says. He has spoken to all three and says they see benefits from having futures contracts on their stock.

Analysts say that for a select group of shares, a futures contract would offer benefits over existing options products. Liquidity in stock options is often spread over a wide variety of strike prices and expiration dates. Futures on shares could offer a deeper, cheaper market, with liquidity centralised on quarterly expirations.

The share futures being considered by the SFE would be settled in cash, rather than the shares themselves, making them more attractive from an administrative standpoint than share-settled options.

Proponents say having futures on a few top companies in every country would help investors focus their portfolios. Currently many fund managers arrange international equity exposure by dealing in stock index futures contracts from a variety of countries. Often the composition of these indices is flawed, or fails to match investors' objectives. Individual share futures would offer an alternative.

Laurie Morse

INDICES AT A GLANCE

	Closing price	Over week	Over 12 months	Since Jan 1	High	12 month Low	High	1994 Low
FT-SE 100	3,129.0	-2.8	+9.7	-8.4	3,620.30	2,786.30	6/5/93	3,520.30
Dow Jones Ind.	3,774.73	-3.1	+9.0	+0.5	3,978.36	3,171.94	2/4/93	3,978.36
Nikkei	19,886.48	-3.1	+5.7	+13.9	21,148.11	16,978.71	28/11/93	20,877.77
Dax	2,130.06	-1.2	+28.5	-6.1	2,267.98	1,603.04	24/5/93	2,267.98
CAC 40	2,138.62	-3.8	+6.3	-6.7	2,355.93	1,835.72	17/5/93	2,355.93
Banca Com. Ital.	689.73	-0.7	+37.4	+7.2	689.03	475.01	31/3/93	689.03

FT Graphics

AVIS

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(the "Issuer")
(a Company incorporated with limited liability under the laws of England, formerly known as Avis Europe plc)

NOTICE to the holders of the

£75,000,000

11% per cent. Bonds due 1996

of the Issuer

(the "Bondholders" and the "Bonds" respectively)

NOTICE IS HEREBY GIVEN that, at the offices of Baker & McKenzie at 100 New Bridge Street, London EC4V 6JA on Friday 28th April 1994 at 11am (London time) Ciba Holdings PLC ("Ciba") and the Issuer will make a presentation to the Bondholders with regard to the performance of Ciba, the Issuer and their respective subsidiaries during the financial year ended 28th February 1994 in accordance with Clause 9 of the Second Supplemental Trust Deed dated 7th August 1992.

A Bondholder wishing to attend the presentation in person must produce at that time either his or her Bond(s) or a valid attendance certificate or valid attendance certificate issued by a Paying Agent relative to the Bond(s) of which he or she is the holder. In order to obtain an attendance certificate, a Bondholder should contact a Paying Agent.

ADDITIONAL INFORMATION

PRINCIPAL PAYING AGENT

The Royal Bank of Canada

71 Queen Victoria Street

London EC4V 4DE

Telephone: 071 489 1188

OTHER PAYING AGENTS

Internationale Nederlanden Bank

Rue de Ligne 1

B-1000 Brussels

Telephone: 0032 217 4040

This notice is given by:

AVIS EUROPE LIMITED

Avon House

Park Road

Bracknell

Berkshire RG12 2EW

Dated 28th March 1994

By Order of the Board

J.A. Nicholson

Secretary

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(Incorporated in the Republic of Korea with limited liability)

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Bonds Due 2005

of

Miwon Co., Ltd.

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Notice is hereby given to the holders of the Bonds that, as a result of the issue by the Company to holders of its common stock and of its preferred stock of rights to subscribe for up to 1,824,000 shares of common stock of the Company described in the Notice given to holders of the Bonds on 30th November 1993, the existing Conversion Price per share of common stock of the Company has, pursuant to the provisions of the Trust Deed constituting the Bonds, been adjusted from W2.114 to W2.093 with effect from 28th November 1993 (the day after the record date in respect of the granting of rights to holders of common stock and of preferred stock).

Miwon Co., Ltd.

28th March, 1994

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Yukong Limited

U.S. \$75,000,000 5% per cent.

Bonds due 1996 with Warrants

NOTICE IS HEREBY GIVEN to the Warrant Holders that the Company has authorized the granting to the holders of its shares and to employees of rights to subscribe for up to 3,498,000 shares of common stock of the Company. The record date for such grant to the holders of its shares will be 8th April, 1994 and such rights will be exercisable from 9th May to 10th May, 1994. Adjusted subscription price reflecting the portion allocated to its shareholders shall become effective from 9th April, 1994 (the day after the record date in respect of the above grant).

A further Notice will be given to the holders of the Warrants of any resulting adjustment to the Subscription Price in relation to the Warrants.

28th March, 1994

Yukong Limited

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28th March, 1994

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U.S. \$30,000,000

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with an Interest Amount of

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\$100,000 Note.

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Company, London Agent Bank

28th March, 1994

28th March, 1994

28th March, 1994

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28th March, 1994

FINANCIAL TIMES SURVEY

RISK MANAGEMENT

Monday March 28 1994

The risks companies face are becoming more complicated. Rising premiums and shrinking protection have forced commercial buyers to rethink their approach and to seek alternative methods of insurance.

Richard Lapper reports

Business takes cover

"Every time there is a disaster people say how could it happen to us. How can we be vulnerable?" Geoff Saunders, risk manager of RTZ, observes when explaining the recent growth of risk management – a combination of loss control, risk financing and self-insurance techniques which is becoming increasingly popular with larger British companies.

Mr Saunders points to the growing number of leading corporations backing the British Insurance and Risk Managers' association, Airmic, whose annual conference opens today, as evidence of growing boardroom interest.

Mr Saunders, who is also Airmic's chairman, says more and more commercial buyers are examining alternative ways of insuring their property, legal liabilities and other risks.

Companies are increasing the amount of risk they retain on their own books by, for example, accepting larger deductibles. Additionally, many are forming "captive" insurance subsidiaries which are dedicated to insuring their own risks and allowing direct access to the reinsurance market.

Figures from Tillinghast, the actuaries and management consultants, show that the number of British captives has more than doubled since 1987, rising from 118 to 325. The

number of captives owned by companies in the FTSE 250, the biggest companies in terms of market capitalisation, has nearly tripled since 1987, rising from 62 to 148. Recently privatised utilities have embraced the trend with particular enthusiasm.

This trend runs parallel to another development: the rise in popularity of financial risk management techniques such as the use of derivatives to cover interest and currency exposures.

Advocates of risk management have long argued that by increasing spending on safety and accident reduction and by setting up their own insurance arrangements, companies can reduce overall spending on insurance and improve their bottom line.

"Companies want to have their own access to the commercial and reinsurance insurance market, without having to pay for the overheads which insurance groups carry," explains Alan Fleming, risk manager of ICI and executive director of Airmic. "Why go to these guys when you can go directly to the real risk-takers who have much more capacity. This is the real driving force for captives."

In the UK, these traditional arguments, which helped fuel the initial rise of the captive movement in the 1980s and 1990s, have been reinforced by

two recent trends.

First, a spate of expensive international disasters in the past 10 years including the explosion on the Piper Alpha oil rig in the North Sea in 1988 and the IRA bomb blasts in the City in 1992 and 1993, have provided graphic reminders of the range of risks to which the corporate world is exposed.

Second, sudden and unexpected increases in prices and restrictions in insurance cover, have led many companies to question the traditional answers offered by the conventional insurance market.

A number of insurers, for example, have reduced their involvement in classes such as motor fleet and employers' liability, as a result of steep rises in claims costs.

The market for employers' liability could contract further early next year if reinsurers go ahead, as expected, with plans to limit the cover they offer.

Companies excluded terrorism cover as a standard feature of property insurance policies, after the IRA bomb in April 1992. Business is now largely dependent on terrorism policies sold by Pool Re, an industry-owned mutual whose losses are ultimately guaranteed by the government, and there have been widespread protests about the increased costs. In some cases London-based companies are paying as much for their terrorism policies as they pay for the rest of their property insurance.

Mr Fleming concedes that insurers were under pressure from their own reinsurers to withdraw but says: "It is worrying that the market overreacts to the unusual. A vibrant market would see this as an opportunity rather than a problem."

Another area, pollution, has also been a cause for concern. Insurers excluded protection against gradual pollution from all liability policies in 1991 but there are fears in some quarters that cover for sudden and accidental damage could also be excluded for standard public liability policies over the next few years.

Mr Saunders says that the market's stance on pollution reflects a more general unease



about long-tail liability risks – in which claims typically emerge many years after the inception of a policy.

The withdrawal from the market of the ninth biggest UK insurance company, Municipal Mutual, in the autumn of 1992, and the disappearance of dozens of smaller London companies has highlighted yet another worry – the security of underlying policies. Municipal Mutual insured relatively small amounts of commercial business but was hard hit by

liability claims from the local authorities which owned the company.

"When you think you've laid off risk and you find out you really haven't because your insurer goes belly up it is a concern," says Mr Saunders.

As buyers respond to these developments there are signs that the UK and, to a lesser extent, the rest of Europe are following a well-established North American trend. There, more than a third of insurance premiums have been diverted

from the conventional insurance market towards a so-called alternative market populated by captive insurance subsidiaries and other self-insurance facilities, such as risk retention groups.

"Europe is a decade and a half behind the US," says Joe Smetana, chairman of risk management at American International Group, a company which was quick off its feet in anticipating the risk management trend.

As well as selling a range of conventional products, AIG is now a leading provider of claims management, loss control and other services for the alternative or self-insurance market.

Mr Smetana says that the contraction of the liability market, initially for product liability and medical malpractice risks in the mid-1970s, fuelled the growth of the alternative market which had begun in the 1950s.

Subsequently, further tightening in liability classes in the mid-1980s boosted the development of the alternative market, including the formation of significant Bermudian high-level liability insurance facilities, such as ACE and XL.

Most of this business has been lost by the conventional market, a development which could have far-reaching ramifications for North American insurers.

The traditional insurance market cycles – in which premium rates fluctuate along with the amount of capital moving in and out of the industry – are expected to become less pronounced, or even, a thing of the past.

"For four years everyone has been saying the hard market is coming. It hasn't. Quite honestly one of the main reasons is because of the alternative market," says Mr Paul Brown, director of public affairs at the Risk and Insurance Management Society, the US risk managers' association. He says that 83 per cent of the Fortune 1000 top US corporations are members of RIMS and the organisation is now increasing its representation among medium-sized companies.

Some analysts expect the US alternative market to absorb 50 per cent of premiums by 2000 and predict that a growing number of European industrial customers will follow suit, especially if deregulation and liberalisation of the European markets lead to increases in premiums for commercial risks.

Bigger insurance brokers, especially those whose interests span the Atlantic, are anticipating the trend, increasingly earning fees from risk management advice and ser-

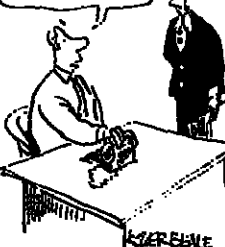
IN THIS SURVEY

- ☐ Employers' Liability: Capacity crunch looms
- ☐ Environment: Call for an integrated approach

Page II

- ☐ Business Interruption: Ways of limiting the cost of a calamity

THAT WAS A TERRORIST SOMEWHERE BUT FOR INSURANCE PURPOSES THEY'VE HAD TO MAKE IT LOOK LIKE AN ACCIDENT



- ☐ Liability: Directors rush to take cover

Page III

- ☐ Contingency planning: The art of planning for a disaster

- ☐ Captives: Bermuda tops the list of domiciles

Page IV

- ☐ Boardroom attitudes: Decision-makers grow wary

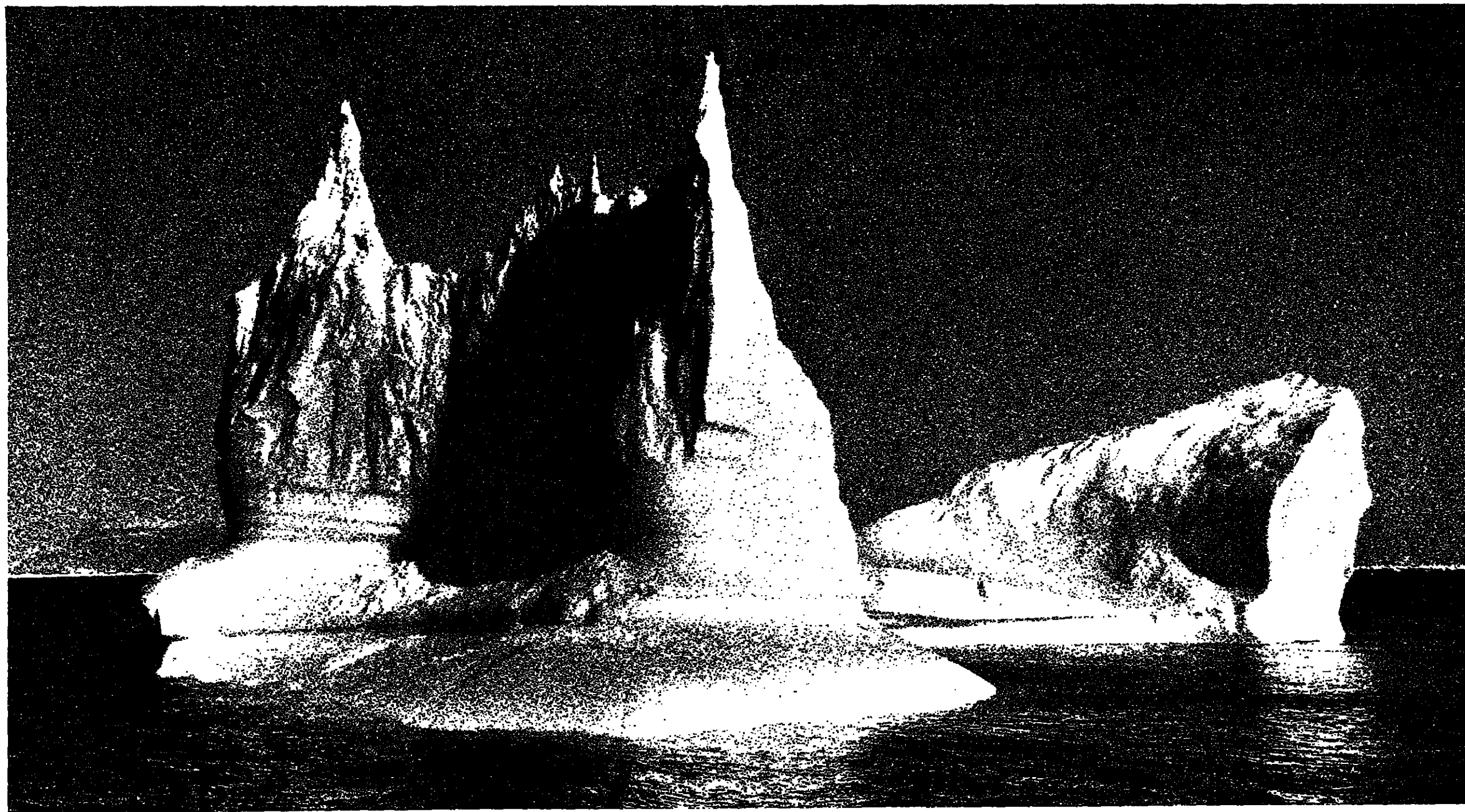
- ☐ Profile: Hank Greenberg of AIG

Page V

vices as well commission income on policies.

But the trend could represent a further blow for those UK and European insurance companies who are too slow to respond.

Some may be losing many of their most significant commercial customers to self-insurance. For an industry already besieged by the banks and new direct telephone-based insurers in areas such as motor, home and life insurance that could be bad news.



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RISK MANAGEMENT II

EMPLOYERS' LIABILITY

Capacity crunch looms

Employers' liability (EL) used to be seen as a relatively easy class of risk to manage for insurers and industry. But since the Piper Alpha disaster in 1988, which sent a tidal wave of claims through the market, businesses are finding EL protection increasingly expensive and often difficult to place. As a result, a radical shake-up in the way EL risk is managed and insured is now under way.

If Piper Alpha shocked direct writers and reinsurers into reducing their exposure to EL insurance business, a steady increase in the cost of claims over the past 20 years had already become a growing concern for EL insurers such as Eagle Star. The leading UK EL underwriter has worked out that the average cost of EL claims has risen by 15 times in the past two decades and is still growing.

Against a background of 800 per cent inflation over the same period, claims for total disablement have risen by 1,500 per cent (from an average of £50,000 to £750,000) and claims for minor injuries increased 1,250 per cent (from £100 to £1,250). Besides injury claims, losses incurred by insurers from occupational disease claims have also grown and now

represent about 50 per cent of all EL claims, compared to less than 20 per cent 10 years ago.

In addition to the relentless march of claims in "traditional" categories, such as death or loss of limb, new heads of claim emanating from white-collar employees are adding to insurers' woes.

Repetitive strain injuries, stress and the effects of passive smoking are rated the claims of the future as trade unions find success, if not with judge and jury, then in out-of-court settlements.

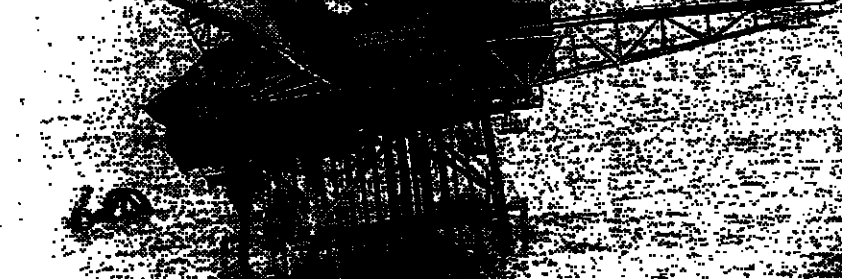
In the face of such formidable claims attrition, insurers have been led by those reinsurers which remain in the market to increase rates and limit the scope of cover offered businesses. Rate increases of 30 per cent annually are now commonplace and as much as 100 per cent, not unusual.

Furthermore, for the first time, industry risk managers approach their EL renewals this year with limits attached to their policies. By law, a company must purchase a minimum of £2m - but from January 1, 1995, a limit of £5m-£10m per policy is likely to be imposed by insurers, instead of the unlimited cover companies have traditionally enjoyed. The situation will be further complicated if the government raises the statutory minimum level of cover, as some observers expect it to soon.

But worries in industry run even deeper: "The limit of indemnity is a red herring really," says Ray Mattholie, risk manager at telecommunications giant BT and head of the AIRMIC working group into EL.

"There are not so many companies which need to worry about catastrophic exposures. The cap is simply a symptom of the shrinking market for EL cover: there is just no interest in writing new business in the market," he says.

It is this lack of availability, especially to non-manufacturing businesses, which will lead to changes in the way EL protections are organised, according to Mr Mattholie. Fundamental changes to the basis on which cover is underwritten, away from occurrence to claims made, to reduce the "long tail" of policies, for example, would require a change in the law governing employers' liability. Similarly, companies increasing their retention of exposure could be contravening existing law which stipulates the amount of cover a company must purchase. "More companies employ alternative risk financing



The Piper Alpha disaster sent a tidal wave of claims through the market

than you might think and it is a nonsense that they have to hide it away," says Mr Mattholie. "Some of these companies are more viable than their insurers."

An even more radical solution being proposed by some risk managers is the adoption of a US workers' compensation type of scheme in the UK. In the US, awards are made through a standard "no-fault" procedure of fixed benefit levels and not through the courts. Premium rating for EL plans have to be approved by the individual states, which are responsible for overseeing their own systems.

Eagle Star's Derek Howie, assistant liability manager, is not convinced: "To follow the American lead would be to introduce an expensive problem for UK industry," he says, pointing to the difficulties the US system is facing.

Mr Howie concedes that the UK Act could be looked at again to accommodate the element of "self-insurance" which some companies require - the use of large deductibles or a captive, for example - but stresses that the Act is designed to protect employees: "There is nothing fundamentally wrong with English common law -

the present system works well - what is needed is a board-led assault on the appalling accident rate in our companies."

But brokers are bringing some risk engineering to bear on EL problems. Risk sharing is advocated by Ron Hayes, director of international risk management at Bowring Marsh & McLemmen, because it encourages insurers to make cover available and without exclusion.

Larger clients are increasingly using their captives to insure part of their EL risk, Mr Hayes says. The insurer issues policies providing for full cover but reinsures "predictable" losses to the company's captive. Even smaller companies should find that taking a sizeable deductible produces savings.

Assigning the deductible to operating companies will concentrate managers' minds on properly managing EL risk, Mr Hayes adds.

Sedgwick UK has introduced an EL risk auditing service which it says helps reduce incidents and claims. It charges a set fee to analyse previous claims, assess the risks a company is exposed to, design a risk management plan to reduce them and negotiate a premium based on the improved risk exposure.

Self-financing deals allow a risk manager to take control of the EL programme but do not always assure great premium savings, warns Sedgwick UK's casualty director James Hopper.

Garry Booth

ENVIRONMENT

Call for an integrated approach

Over the past five years, environmental liability has gained importance in risk management circles throughout the world. A barrage of laws and regulations on everything from pesticides to packaging waste has turned what was once regarded as routine spillage or emission into actionable nuisances or even criminal offences.

Anyone doubting the momentum of this trend should look at a snapshot of activity worldwide:

- The European Union is debating new liability rules under its Green Paper on Remedying Environmental Damage.
- The Strasbourg-based Council of Europe has agreed a convention on liability for damage resulting from activities dangerous to the environment.
- The United Nations Environment Programme (UNEP) is developing a liability protocol under the Basel Convention on cross-border movements of hazardous waste.
- The UK government has just published its preliminary thoughts on liability for contaminated land.
- The French environment ministry has circulated all departments and regions with instructions to begin preparation of inventories of contaminated sites.
- The governments of Germany, the

Netherlands, Denmark, Sweden and Finland, as well as regional governments in Spain and Italy, are promoting tougher liability and clean-up proposals.

- In the US, Congress is examining proposals to update both the Superfund hazardous substance clean-up law, CERCLA, and the Clean Water Act.
- In Canada and Australia, individual states and provinces are developing new strict liability regimes.
- Even in Japan, the recently passed Basic Environmental Law and some local

city ordinances are opening the way for new liability provisions.

At the same time, the environmental enforcement agencies and powers at national and international level are being strengthened, with a third biannual international enforcement conference to be held in Oaxaca, Mexico, next month.

The uncomfortable paradox is that, just as environmental regulations proliferate and liability increases, the insurance market has been restricting or removing cover for environmental risks. Courts in the US have been upholding hundreds of high value claims for Superfund and other clean-up costs, under general liability policies that were either silent on pollution or attempted to limit cover to "sudden and accidental", as opposed to gradual, incidents. As a result, insurers have been rewording their general policies to narrow the range of pollution incidents covered.

Conversely, a small number of insurers, including insurance market pools in certain European countries, now offer specialist environmental insurance policies to cover a variety of risks, including environmental impairment (third party) liability (EIL), on-site clean-up, and contractors' risks, directors' and officers' risks (D&O), and professional indemnity (PI) risks.

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The Exxon Valdez disaster in 1989 poured more than 11m gallons of oil into Alaskan waters

These new policies are generally based on "claims made" (as opposed to "occurrence") policy wordings, require intensive site surveys before cover is offered, have modest policy limits (typically £1-£10m) and involve substantial deductibles (the amount paid by the policy holder in any loss). They require payment of premiums which many potential policy holders consider high, particularly when they have had environmental cover free in the past. In addition, they offer little cover for damage caused in the past, to the extent that such cover simply will not be available to many existing industrial facilities.

As Richard Turrin, of AIG Europe (UK) Ltd, one of the providers of such insur-

ance, puts it: "You can't insure a car after it has crashed." On the other hand, he points out, sites subject to a properly documented clean-up may become insurable again and, in another context, companies inviting contractors or consultants on to their sites may well want to ensure that these intruders are adequately covered for any environmental damage they do in the course of their work.

Caught in this pincer movement of tightening regulation and narrowing insurance cover, risk managers are developing more sophisticated packages of measures to handle environmental risks.

Nick Chipman, managing director of Sedgwick Environmental Services in Lon-

don, believes that EIL policies are too limited to be of much use to many clients. He hopes to see more "customer-friendly" insurance products emerge from discussions with interested insurers. At the same time, he is keen to encourage clients to get their own operations into a condition that will make them more insurable.

Some companies, he says, publicise corporate environmental policies without doing enough to implement them. He also sees a complacency in countries such as the UK where "sudden and accidental" pollution cover can still be obtained free under public liability policies. Mr Chipman argues that buying specialist environmental policies can increase the inherent value of a business by acting as a kind of certificate of assurance on its commitment to good environmental management.

Beyond that, Mr Chipman recommends that all clients at risk dig out their old liability policies, often written on an "occurrence" basis (i.e. with cover remaining open indefinitely for incidents occurring during the period of the policy), which he sees as an asset against which potential liabilities can be offset. Where there is no insurance to rely upon, he points to a range of alternative risk financing mechanisms, which allow companies to put money aside on a regular basis towards possible future liabilities. The key, he says, is to have an integrated approach to all the options available.

Chris Clark

Editor of the newsletter, Financial Times Environmental Liability Report

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RISK MANAGEMENT III

■ BUSINESS INTERRUPTION

Ways of limiting the cost of a calamity

In March 1993, a fire struck the plant of wallpaper manufacturer Gallery Home Fashions at Caerphilly in south Wales. Nearly half of the 42,000 square foot building was destroyed, including the stock areas and the office block. Some of the machinery was damaged beyond repair and everything else in the building was badly affected. As the company's chief executive, Martin Paterson, says: "After the fire we were playing for very high stakes - our survival. Continuity of supply is vital in the wallpaper business. If we don't fill rack space in the shops, someone else will."

A £4.6m insurance settlement was negotiated with the assistance of Nicholas Balcombe, chief executive of loss assessors Balcombe Group. Rather than rebuild the factory, which would have led to production shutdown for a significant period, it was agreed that a new plant should be built nearby.

In the meantime, with co-operation from the Health and Safety Executive (HSE) and the building authorities, it was possible to repair the factory sufficiently to restart some production within two weeks, concentrating on the most profitable lines.

Over the next nine months output was built up to around two-thirds of normal. From December 1993, production began to be transferred to the new plant, which was officially opened in early March 1994, a year after the fire.

Mr Paterson emphasises the importance of the initial stages: "The momentum we generated in the first fortnight after the fire carried us through the longer-term recovery."

This case shows that it is possible to successfully manage the consequences of a serious interruption to business, through co-operation between management, insurers, insurance brokers, loss assessors, loss adjusters and the relevant authorities. It also highlights that rebuilding plant is not always the best option.

It is not only large fires that interrupt business. As Andrew Dunn, marketing manager of disaster recovery and restoration specialist Stralis, says: "A fairly small material damage loss can have a phenomenal business interruption effect."

One example would be damage to a crucial high technology machine, on which the lead time for purchase of a replacement may be a year or more.

Laurence Law, national services director of Alexander and Alexander (UK) Ltd, cites the case of a carpet-making machine which took three years to replace.

Business interruption (b/i) insurance is one element in the management of risk. It covers, during a selected indemnity period, loss of gross profit and "increase in cost of working", that is, costs incurred in minimising the gross profit loss, for example, sub-contracted production, overtime payment, temporary equipment hire, or purchase of replacement stock from alternative suppliers at higher price. Extensions to policies can cover interruption caused by damage at customers' or suppliers' premises, denial of

access, and other b/i risks.

Global figures for UK insurance companies (these exclude Lloyd's syndicates results) from the Association of British Insurers (ABI), put gross incurred b/i claims following fire at £100m in 1993, compared with £423m for commercial property damage claims following fire. However, insurance claims do not give the full picture. One leading insurer has written that "the traditional problem of inadequate sums insured remains a feature of many b/i claims."

As Balcombe says: "Some companies manage to make good the damage and recover quickly, supported by payment in full of their insurance claims. Many others are not so fortunate - usually they have been under-insured."

Many b/i policies are purchased with an indemnity period of 12-18 months, whereas repair and rebuilding after some incidents can take much longer. Brian Toft, risk analyst in the Risk Services Division at Sedgwick (UK), says: "In many cases a year is too short: it may take two or three years to get a business up and running after a major incident. By then the trained workforce may have disappeared, as well as customers."

The costs of loss of reputation, or long-term loss of customers due to inability to supply goods, are difficult to quantify. This, in addition to underinsurance, may disguise the fact that in some cases the real cost of business interruption can be greater than that of physical damage.

Modern business practices can lead to increased interruption risks. Dependencies between customers and suppliers are rising. One instance is single sourcing of components, which has advantages in terms of cost and quality control, but can be a critical problem if the sole supplier suffers an incident disrupting supply.

An extreme example of problems associated with concentrated sourcing is a fire in 1993 that destroyed a plant in western Japan which produced 60 per cent of the world's output of a resin used in semiconductor devices. Such problems can be compounded by business methods such as just-in-time, where raw material and finished goods stocks are kept to a minimum.

High capacity plant gives advantages of economies of scale. Concentrating a higher volume of production into a more compact area also heightens the potential extent of damage and consequent interruption in the event of a disaster. Similarly, widespread reliance of many businesses on computer systems, increases the potential consequences of computer failure.

There is a wealth of experience within the risk management profession to help businesses cope with these business interruption risks, both pre-loss prevention and post-loss mitigation. Roger Ricketts, technical manager of property services in Sun Alliance International's Risk Improvement and Survey Department, says the emphasis must be on prevention: "Having b/i insurance does not guarantee you won't go out of business. An important

part of our work is to give advice on contingency planning, and risk identification, assessment and control."

Also of significance are hidden costs - sometimes called "iceberg" costs - associated with accidents in the workplace. These are not generally termed business interruption events, but looked at in the broad risk management context can have the same effect. For instance, if an accident occurs on a production line or individual machine, output might have to be shut down for a period. John Hurrell, managing director of Sedgwick Global, notes that other hidden costs can stem, for example, from management time spent in investigating an incident, difficulties in hiring skilled replacement workers, and less tangible elements such as the effect on morale or damage to reputation.

As Barry Holt, manager of Liberty Risk Services, says: "Our research, and that of bodies like the HSE, shows the value of addressing the top of the accident 'iceberg'. Our role is to identify and assess workplace risks, and then reduce or eliminate them, with the aim of preventing accidents from occurring in the first place."

Simon Reynolds

Environmental liability and employers' liability may be the hot issues for companies in the Nineties but they face many other liabilities equally difficult to handle. Directors' and officers' liability (D & O), public liability, and product liability are all areas where there has been an increase in litigation and awards, or out-of-court settlements.

The problem for companies and their insurers is that liability claims are subject to the whim of the courts, and awards, especially personal injury, are rising.

One of the most noticeable trends recently has been the increasing liability of directors, who are being sued alongside their companies. Greenpeace, for example, began a campaign to single out directors of polluting companies.

The first recourse of a director is a D & O insurance policy which provides cover for claims made against directors for wrongful acts or trading, and defence costs. According to the latest Wyatt UK D & O survey (with 123 responses, admittedly only a small sample) 62 per cent of respondents had insurance cover (compared to 84 per cent in the much larger US survey).

D & O insurance claims give a good idea of the growing incidence of claims against directors and the source of those claims. The Wyatt survey shows that 26 per cent of participants have experienced at least one claim in the past 10 years, compared to 1991 when the figure was 17 per cent. Claims were brought by employees or former employees (34 per cent), competitors (21 per cent), shareholders (21 per cent) and government bod-

ies/regulators (18 per cent).

Martin Beagley, of Willis Corroon, says the main exposure is in the US: "There have been more claims in the last six months than there have been in the last six years, and most are employment-related, coming from large UK multinationals operating in the US."

In the US claims from shareholders account for nearly 50 per cent of all D & O claims, and inadequate financial disclosure claims are on the increase while claims from merger and acquisition activity, from where the majority of UK claims stem, have fallen.

The D & O insurance market is very competitive with new capacity coming in, and the old participants rethinking, so that while there has been an increase in claims, the premiums are still relatively cheap.

There are some exclusions in D & O policies, including dishonesty or fraud, except where there is a successful defence, product liability and libel or slander. More importantly, most policies specifically exclude pollution, whether gradual or sudden and accidental. However, a specific D & O pollution policy was launched recently by AIG.

The Cadbury Report has had a profound effect upon directors and has certainly increased the awareness of directors of the liabilities they face. Similarly, the well-known recent scandals involving directors have helped to con-

centrate the mind of directors on their potential liabilities, and, indeed, the threat of a heavy fine, or even imprisonment, may be driving risk management within companies.

At the very least, it can be used by risk managers to bring risk management to the attention of senior management. As Liz Taylor, risk manager at Harrison & Crossfield, points out: "I think that risk managers should use all the incentives that they can, and personal incentives for manag-

The problem for companies and their insurers is that liability claims are subject to the whim of the courts

ers are a very useful tool."

Public liability insurance (PL) provides protection for companies against financial loss stemming from third party personal injury or property claims, and, as with most liability insurance, claims are on the increase. Since 1991, PL policies have included gradual pollution exclusion wordings, but they still offer cover for sudden and accidental pollution, though most in the industry now feel this will not be the case for much longer.

In contrast to the relaxed attitude to pollution liability, many PL policies in the energy field now exclude third party liability in cases involving

electromagnetic fields (EMF), in spite of there being no case history or proven liability.

The 1985 EC Directive on Liability for Defective Products (which resulted in the Consumer Protection Act in the UK in 1987) imposed a regime of strict liability, which, combined with the growing "deep-pocket" approach to claims, has driven greater risk management among manufacturers. And the forthcoming EC General Product Safety Directive will impose new responsibilities to encourage risk assessment and prevention.

While awards escalate in the US, the UK product liability market is relatively stable. This is partly because there simply are not the huge awards in UK courts that are found in the US. The biggest claims in the UK occur in the pharmaceutical or chemicals industries. These industries are normally only able to obtain cover on a claims-made basis, but for other industries there is little problem in getting cover on an occurrence basis.

Paul Maynard, technical director in the UK division of Minet, the international insurance broker, says that in 1985/86 insurers, where their insureds had a US exposure, tried to force all policies towards claims-made wordings, but the attempt was short-lived. He adds: "The commercial market today could be described as hard, though it is

not as bad as in 1986. There may not be big reductions at renewals, but it is not difficult to find good quality capacity."

While product liability may not be a problem area for companies, D & O looks set to be a significant problem if the UK follows the US example. According to the Wyatt survey in the US, the average D & O claim last year was \$3.25m, with shareholder claims averaging \$5.4m.

Douglas McBean, a D & O specialist with Minet, sounds a note of caution for European companies which are listed on US stock exchanges, or which are considering doing so: "Used to the relatively lax reporting requirements in the UK and mainland Europe, many companies are caught unawares regarding the stringent rules of disclosure of information to shareholders and regulators in the US. Plaintiff lawyers and the Securities Exchange Commission (SEC) have not been reticent in exercising their powers."

Many will say that it is only the US's contingency fee system that inflates liability claims, and that it will never happen on the same scale in the UK. But be warned: there is considerable pressure to bring in some form of contingency fee litigation in the UK.

Tony Dowding

Editor of the commercial insurance and risk management monthly Corporate Cover.

Directors rush for shelter

■ LIABILITY

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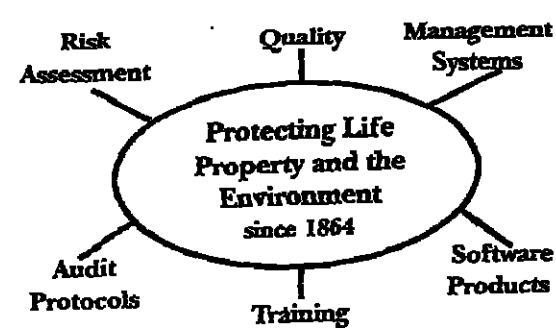
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RISK MANAGEMENT IV

CONTINGENCY PLANNING

The art of planning for a disaster

The extensive damage, injury and death caused by terrorist bomb explosions in New York, London, Northern Ireland, Milan, and elsewhere provide the most pointed lessons in the need for contingency planning.

However, the discipline is relevant not only to such high profile events, but also to the management of any incident which affects continuity of business. Threats arise from many diverse sources, including: fire, flood, or storm; employee fraud or negligence; computer virus; a health alert (perhaps a case of legionnaire's disease) or injury to key staff.

Even seemingly prosaic events, such as loss of a corporate stationary storage facility through fire, can disrupt a business. A threat might be posed by an incident which strikes a supplier, affecting its ability to deliver key components. As Chris Chandler, of Continuity Planning Associates, says: "Our definition of a disaster is any unplanned occurrence which seriously affects an organisation's ability to trade."

A recent British Bankers' Association (BBA) guidance note, *Surviving a Disaster*, asserts: "Contingency planning is essential, not optional, and should be budgeted for accordingly." This sentiment is equally applicable to all business sectors. However, evidence suggests that such advice has yet not been fully heeded. In 1993, Keith Hearn, a lecturer in security management at Loughborough University, surveyed the ability of organisations' contingency plans to cope with a disaster striking computer systems. Based on 421 responses his analysis shows that, while awareness of the need for contingency planning is high, in practice plan implementation, scope and effectiveness often leave much to be desired.

The survey results indicated that 43 per cent of respondents had no contingency plan, 20 per cent had untested plans, and 15 per cent had "doubtful" plans. Just 22 per cent had contingency plans that were termed "viable." The overall figures hide wide variations between industry sectors. For example, viable plans were

found among 63 per cent of gas, electricity and water utilities, but only 14 per cent of local authorities and computer services businesses (such as software houses and systems bureaux).

In publishing these results, IBM UK noted: "The research paints a gloomy picture of the viability of recovery plans in British organisations." IBM's report adds: "Many so-called business recovery plans stay in the IT department." Information technology systems are

increasingly important in a port of a n t given the wide-spread distribution of computing power throughout organisations. However, a focus on IT systems, or any other individual operational area, is unlikely to lead to effective contingency planning.

As Charles Shaw, director of business continuity consultancy at Safetynet, says: "Having a plan solely for an IT department is like having a fire escape half way down the side of a building." Leo Gibbons, associate director of Sedgwick Bankrisk, agrees: "Contingency plans must address the effect of an incident on the continuity of the business as a whole. For example, having a hot-site standby computer facility up and running within a few hours may not be of much use if the appropriate staff, command structure and communication links are not in place."

However, in recent years computer disaster recovery services have broadened their scope and are now largely indistinguishable from contingency planning, or business continuity planning, disciplines which have developed in a wider risk management context.

In its guide to disaster recovery action planning, MRC Busi-

ness Information Group notes the change in emphasis: "In the past such planning has focused on computer installations. [Now it must deal] with the many aspects of organisational life: management, personnel, insurance, communications, buildings and building services."

However, as the Loughborough University results highlight, the application of broader contingency planning is not widespread. Mr Gibbons says that, apart from a focus

experience of numerous disastrous incidents, notes four implications of such an event: "It arrives suddenly and is unanticipated; it poses novel problems in which the enterprise has little prior experience; failure to respond implies either a critical financial reversal or loss of a significant opportunity; and the response must be urgent and cannot be handled promptly by normal business systems and procedure."

Contingency planning involves developing and implementing systems and procedures to enable that response to be made. It requires a high-level commitment. Mr Shaw points out that Safetynet's contingency planning consultancy requires a client to appoint an "executive sponsor" to guarantee its commitment to the project. As MRC's Mr Fleming says: "Contingency planning must have the commitment of the senior management of an organisation. Those involved in a business, who know it best, must formulate their own contingency planning. A consultant cannot do it for them, but can catalyse and help direct the planning process."

Contingency planning involves more than simply writing a plan. Mr Gibbons says: "Four phases are required: ■ Review of hazards facing an organisation, and assessment of their potential business impacts; ■ Development, maintenance, auditing, and testing of the contingency plans; ■ Crisis management - implementation of plans during an incident and its immediate aftermath; ■ Recovery to normal business operations."

Andrew King, who as director of loss adjusters Thomas Howell Group has first-hand



The Bishopsgate bomb emphasised the need for contingency planning

on IT, other factors which can make contingency plans less than fully effective include: "Lack of testing or staff training; failure to regularly audit plans to make sure they address changing threats, and too little attention being paid to longer term recovery." Often the initial imperative which pulls an organisation together during a disastrous incident is difficult to sustain after a few months.

An extreme example of plan failure followed the Bishopsgate bomb in the City of London in April 1993. One City firm found that it was unable to implement its contingency plan because the sole copy was in the senior partner's safe in a building within an area cordoned off by police.

Andrew King, who as director of loss adjusters Thomas Howell Group has first-hand

It is important that the first two phases are revisited regularly: hazards and their potential impacts will change over time, and contingency plans must evolve in response. As Mr King says: "The plans must be living documents that reflect changes in the business environment." Often the outcome of the planning process will be a series of plans relating to departments or operational areas, managed within the context of an overall strategic plan.

In the event of a crisis developing, the contingency plans will detail the make-up of recovery teams and the tasks that need to be carried out. Employees need to be informed and directed. Key services must be maintained, and alternative or stand-by facilities brought on line where needed. Communication with customers and suppliers is essential, as is handling of the media. In a high profile incident, the reputation of a company may rest on the comments made by spokespersons.

Contingency planning is applicable regardless of the size of an organisation, or its field of business. Numerous sources of advice and assistance are available. Insurers, insurance brokers, risk consultants, loss adjusters, loss assessors, and chartered surveyors all provide consultancy on contingency planning and the use of third-party recovery services.

Specialist consultants in the field include Continuity Planning Associates (CPA), Safetynet, Comdisco Disaster Recovery Services (CDRS), IBM Business Recovery Services, Datashield, Computer Disaster Recovery, MRC, Safetynet, and Stralis among many others. Some provide software products to assist clients with the contingency planning process: RecoveryPAC from CPA, COMPAS from CDRS, Crisis from Richmond Risk Management, and TRPS from AI Cambridge, for example.

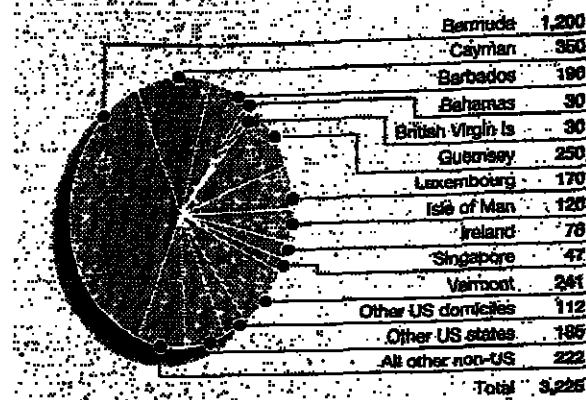
It is too late to address contingency planning after a crisis has occurred. As Mr King says: "No-one plans to fail, they just fail to plan."

Simon Reynolds

CAPTIVES

Bermuda is top domicile

Captive insurance company domiciles 1994



Source: Willis Corroon

Gone are the days when a risk manager set up a captive during the hard insurance market when rates were high, only to let it rot when the market softened. Gone, too, are the days when a UK risk manager could afford to establish a captive in Bermuda in order to qualify for an annual jaunt to its temperate climate. So where are today's most popular captive domiciles and why?

Bermuda is the favourite among US parents and remains the international king of captive domiciles. Tillinghast Captive Insurance Company Reports lists 1,173 captives in the island in 1993, way ahead of the next in line - the Cayman Islands with 360. Bermuda's registrar of companies, Mr Malcolm Butterfield, has overseen an influx of property catastrophe reinsurance companies over the past 12 months which he believes enhances the reputation of Bermuda's captives. But the island is already overcrowded and Mr Butterfield predicts only moderate growth in captive numbers in the future.

The top 100 UK companies place Bermuda second on their list of domiciles. The Isle of Man tops the list with 24 captives, thanks largely to its proximity to mainland Britain and its established credentials. Guernsey recently changed its tax laws for the benefit of UK parents and comes in third place with 19 captives. Guernsey's proven willingness to accommodate the needs of UK parents make it a captive domicile to watch. According to Tillinghast, it scooped first prize for net gain on the captive register in 1993.

But captive domiciles do not come in and out of vogue like headlines. "The choice of domicile depends first and foremost on the location of the parent company. Other selection criteria include accessibility, political and economic stability, captive start-up and operating costs and the domicile's regulatory and fiscal regimes," says Mr Roderick Struth, managing director of Sedgwick Management Services. Wary risk managers also look to the domicile's track record and credibility for support.

"A UK parent will, more

often than not, establish a captive in the Isle of Man or Guernsey. A US company automatically heads for Bermuda or the Cayman Islands, the French feel more at home in Luxembourg and the Japanese incline towards Singapore," explains Ms Christine Douse, director of Willis Corroon Europe Limited and the doyenne of the captive community. There are more than 30 listed captive domiciles, from Turks and Caicos to Tennessee, and Ms Douse warns newcomers and hopefuls of the difficulties of gaining a firm foothold in a saturated market. "Malta is currently trying to drum up support, but what can it offer a UK company that is

centre proclaim this facility as the way forward. Mr Paul Cronin, manager of the Financial Services Programme at the Industrial Development Authority of Ireland, says: "It is now part of North American culture that a direct licence in Dublin is the way to cover European risks." Heinz, McDonald's and Coca-Cola bear him out. But a direct licence gets a lukewarm reception in the UK. "UK companies already enjoy purchasing freedom, so a direct licence may be of little benefit. Captives that follow the direct route should also remember that what they save on fees paid to a fronting insurer, they may spend on claims handling and customer service," warns Ms Douse.

US companies are pioneers of the move onshore. Successful locations such as Vermont are tempting risk managers to keep the captive native. Vermont made room for 23 new captives in 1993, including the prestigious Pepsi-Cola, bringing its total to 240.

Mr Crawford Paul, executive director of Willis Corroon Europe Ltd, is enthusiastic about the development but cautions risk managers not to drop their business objectives as they jump on to the bandwagon. "An onshore captive is more expensive to set up and run than an offshore captive. Its licensing and operating procedures are also complex." But an onshore captive eliminates fronting fees and ceding commission and allows the parent

Continued on page 5

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RISK MANAGEMENT V

■ BOARDROOM ATTITUDES

Decision-makers grow wary

Although risk management has not yet achieved the recognition in the UK and Europe that it enjoys in North America, its profile is developing fast. As the business climate and attitudes to litigation continue to change, European organisations are realising their vulnerability to factors and situations beyond their immediate control and are turning increasingly to risk management for protection.

The ultimate risk managers of any organisation are the members of the board, but modern business trends such as "just in time", minimising inventories and streamlining production - very often with single source suppliers - have introduced numerous new factors into the risk equation and further complicated the decision-making process. More than ever before, the senior decision-makers require access to all the facts, and not only those which a champion for a new business venture is likely to emphasise.

As a result, a new dynamic role is being created. Increasingly, boards are coming to rely upon their risk managers to supply a "risk profile" of the principal exposures and the perception of the importance of risk management is growing.

This changing perception has been reflected by corresponding changes at Airmic, the UK organisation dedicated to representing the interests of insurance and risk management professionals, which has recently introduced corporate

membership. Despite the fact that it has not yet actively marketed the new membership category, the association already has some 80 corporate members, most of which are drawn from the UK's top 200 companies.

The credibility of insurance buyers and risk managers at board level has been much enhanced by Airmic during the past two years, as a result of its drive to fully represent the views of its members to the government and other decision makers. The association has played a crucial role from the outset in the terrorism issue, and has been heavily involved in the debate on equalisation reserves for insurance companies, the imposition of insurance premium tax, environmental considerations, and a number of other technical insurance-related issues.

This high profile has earned the association an authoritative position on risk management and insurance issues. It now maintains a regular programme of contact with MPs, the UK's department of trade and industry and other government departments. Many of Airmic's members are multinational organisations and demand a global view of risk management issues. The association has done much to strengthen relationships with overseas risk management organisations and

to ensure that the UK does not become isolated. This is an important consideration in view of the evolution of a single Europe where, with the continuous development of European Union (EU) legislation, risk management organisations share a common interest.

Airmic plays an active role alongside the Association Européenne Des Assurés De L'Industrie (AEAI) which represents the various European risk management societies. This activity is important because it gives Airmic access to a lobbying capability in Brussels, the heart of the EU.

Airmic is also a key member of the International Federation of Insurance and Risk Management Associations (Ifirma), through which it liaises with sister organisations in Europe, North and South America, Australia, South Africa, India and the Far East. Airmic works together on a number of issues with the North American Association Rims which, together with the Public Risk Insurance Management Association (Prima), is a very powerful organisation with significant influence and lobbying capability.

A principal objective of all the risk management associations is to enhance the credibility of the function at the most senior level as any structured risk management approach

will work properly only if it is endorsed at this level. The reality is, however, that most risks are encountered at operational level, and this is where the emphasis on control should fall. Risk management is not just about catastrophic events; it is a culture that, like safety and quality, should be imbedded throughout the organisation. An important building block is an open-minded review of past experience and significant benefits can be gained from analysis of incidents, both in frequency and cause.

Another important feature of any risk management programme is its risk transfer and insurance arrangements. Many organisations in North America and in Europe are building their risk management structures alongside what used to be the insurance department. The diversity of the function is such that there is unlikely to be any one section of the organisation with a wide enough remit to influence all aspects; however, we believe that the risk management function should operate not in an independent way but as a catalyst, in making sure that a broad perspective is taken of risk situations and co-operative expertise brought to the problems and the board.

Alan Fleming

Director of IC Insurance Ltd and executive director of the Association of Insurance and Risk Managers in Industry and Commerce (AIRMIC)

Bermuda is tops

Continued from page 4

to exploit double tax treaties. Risk managers also use onshore captives as a weapon in their fight for greater parental control. "Captives that write parent company business and spend more than £3m on premiums and companies that write customer insurance programmes - both should take a look at the onshore alternative", advises Mr Paul.

Customer risks are the boom market of the 1990s. In the

ceaseless search for new sources of revenue, manufacturers are marketing customer warranty, credit and maintenance and service contracts that are underwritten by a captive. The market breathed a collective sigh of relief when the High Court recently ruled in favour of Thorn EMI and Granada, wiping VAT from service and maintenance contracts and saving them £50m of VAT on insurance premiums for all risks and breakdown cover. According to the latest

figures, their onshore captive, Consumer Electronics Insurance, writes an annual premium income of around £17m.

If customer risks are the wunderkind of the 1990s, employee benefits should come into their own as the millennium nears. The gradual erosion of the welfare state has placed the responsibility for life insurance and healthcare firmly on the shoulders of the country's employers, but only a small percentage bring a captive into play on the employee benefits field. The Cayman Islands welcomed their first employee benefits captive in 1993 and Dublin is aggressively

marketing its ability to handle employee benefits risks.

Captive domiciles bask in the glory of the parent company country. Bermuda and the Cayman Islands benefit from the size and sophistication of the US market and Guernsey and the Isle of Man owe much of their success to the captive tradition in the UK. Continental Europe has resisted the call of the captive, but there are signs that this is changing. The rise in German insurance rates is motivating a number of companies to consider establishing a captive.

Naomi Caine

Profile: HANK GREENBERG

An extraordinary innovator

"We do try to understand risk. We try to work out plans to manage it successfully," says Hank Greenberg, explaining one of the basic philosophies of American International Group, of which he is chief executive and chairman. "In fact," adds Mr Greenberg, "we welcome new developments of risk in society because it gives us new opportunities".

On the surface this sounds unexceptional. Yet AIG's success in implementing Greenberg's philosophy marks the company off from many of its competitors in both the United States and other insurance markets and has been the basis for the group's success.

By any standards AIG's growth over the past 30 years has been formidable. It has increased its premium income from just \$237m in 1968 to nearly \$16bn in 1993. And although its market capitalisation base is still smaller than those of Europe's biggest companies, such as Allianz, AIG is much more profitable than most of its rivals with pre-tax profits of \$2.6bn in 1993.

How has the success been achieved? For a start, Mr Greenberg keeps an iron grip on costs which can be up to a third lower than some of its competitors. Unlike some of its US rivals AIG has no pretences of maintaining an organisation that can sell all types of insurance products to all types of customers in every US state.

"To believe you have to go into business to protect other businesses is a mistaken judgement or that you have to have a certain market share regardless of results is a mistaken policy," explains Greenberg.

Meticulously critical of underwriting standards in the US industry, and a policy - commonly followed by many rivals - of compensating insurance losses with investment income, and in recent years by capital gains, Mr Greenberg explains that AIG puts much more emphasis on underwriting profits. "Underwriting is our first business and that is what we judge ourselves on," says Mr Greenberg. Certainly AIG is not frightened of the sudden and exceptional risk. "The market place eliminates one-time big losses but unusual

events occur on a frequent basis. It is kind of hard to take them out and say they are not occurring."

Whereas many insurance companies have quit difficult markets such as those offering cover for environmental pollution, AIG has stuck with its customers. "We are in the risk business," says Mr Greenberg. "If we fail to respond to the needs of society or corporate society then we are simply encouraging self-insurance."

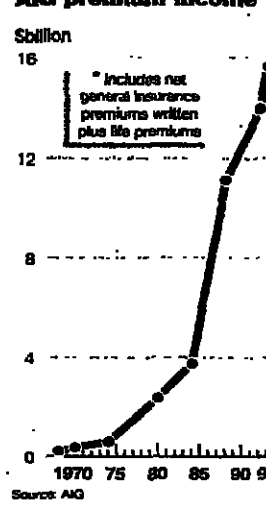
AIG spends heavily on its divisions which "research and develop" new products. "We eagerly seek things out rather than continuing to do just what we did yesterday," adds Mr Greenberg.

This philosophy takes AIG into what many more conservative companies would consider high-risk markets overseas and in the US. AIG, which started as a Shanghai-based underwriting agency in 1919, is now back in China, for example - as the only foreign insurance company licensed to underwrite business.

The achievement at least partially reflects Mr Greenberg's own personal determination. He has visited the country every year since 1975 to maintain contacts. AIG subsidiaries are leading participants in the life insurance markets of south-east Asia and are actively seeking to build up business in eastern Europe. By acquiring an interest of more than 20 per cent in the Robert Plan, a New York-based insurer, which successfully specialises in high risk motor insurance, Mr Greenberg signalled an interest in the crime-ridden markets of inner-urban America, which have been "red-lined" by principal competitors.

Robert Plan makes money in New York by rigorous screening of potential customers and claimants. But nowhere has this philosophy been clearer than in tough commercial risks such as US legal liabilities. During the 1970s, when US insurance companies left the liability insurance market over fears about escalating court awards in product liability and medical malpractice, many corporate buyers were forced to examine self-insurance and

AIG premium income*



Hank Greenberg: "we welcome new developments of risk"

risk management for the first time, sometimes setting up captive insurance companies, dedicated insurance subsidiaries.

AIG set up a risk management company, which advised companies on captives, helped them administer claims and plan insurance and reinsurance arrangements.

Later in the mid-1980s when the market for liability insurance shrank further, AIG expanded its business, combining with three other companies to offer a basic liability insurance facility to US business. AIG also offers a series of specialist liability insurance products. For example, the AIG subsidiary, National Union Fire of Pittsburgh, is a big underwriter of directors and officers insurance - which protects boards and senior management against legal action

from creditors and shareholders.

Lexington, another subsidiary, specialises in placing property and liability risks for health care, construction and some other industries, and pioneered insurance products which provide insurance for employers suffering lawsuits alleging discrimination or sexual harassment, especially after the disabilities and civil rights legislation of 1991 and 1992.

One of the principal features of all these products is risk control programmes, which help customers root out practices which would give rise to legal action, reducing AIG's exposure to potential claims. For example, National Union has assembled a national panel of specialist law firms to help clients deal with litigation by shareholders.

AIG's interest in the US liability system has led Mr Greenberg to take a highly visible public stance on environmental laws, which potentially threaten the viability of sections of the insurance industry. Owners or operators of waste sites ordered by the government's environmental agency to clean-up polluted areas under the so-called "superfund" laws, face a bill for billions of dollars. Many are already suing their insurance companies for the bill and - depending on the decisions of many state and federal courts - much of the cost could eventually hit the insurance industry.

Mr Greenberg says AIG's exposure is minimal. "AIG was a very small company in the 1960s and 1970s when many of these sites were created." Nevertheless AIG is pressing for change.

Mr Greenberg says that reform proposals unveiled earlier this year by the Clinton administration are too "convoluted", insufficiently different from the current regime and have little chance of becoming law. He will continue to press for reform to a structure which has become "bizarre" and "hurts economic development".

Richard Lapper

MITTEL EUROPA

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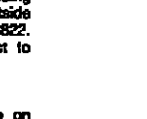
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THE NEW YORK TIMES
From the Editor of the Times

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1. The first group of people who are not in the labor force are those who are not in the labor force because they are not in the labor force.

FT GUIDE TO THE WEEK

28

MONDAY

Italian elections

Monday is the second day of the Italian elections. A clear pattern may not be apparent until late on Tuesday and it may take many days to form a government. The two leading contenders are the Alliance for Freedom - led by Silvio Berlusconi's Forza Italia - and the Progressive Alliance, led by the Democratic Party of the Left.

Ugandan polls: Uganda holds elections for a constituent assembly that will debate President Yoweri Museveni's new constitution. The most controversial clause of the draft charter seeks to ban political parties until at least the year 2000. During the current campaign, candidates have not been allowed to identify themselves publicly with any political party, but they have been able to argue in favour of a return to party politics.

G-15 summit: PV Narasimha Rao, the Indian PM, hosts a three-day summit of representatives of 15 developing countries. His guests include Dr Mahabir Mohammedi of Malaysia, President Suharto of Indonesia and heads of government from Nigeria, Argentina, Senegal and Zimbabwe plus cabinet-level representatives from Algeria, Brazil, Egypt, Jamaica, Mexico, Peru, Venezuela and Chile. North-south issues top the agenda.

Nazarbayev visits Moscow: President Nursultan Nazarbayev of Kazakhstan is scheduled to begin talks in Moscow with President Boris Yeltsin. Talks will focus on the future of the Commonwealth of Independent States, economic agreement between Russia and Kazakhstan, and the future of the Balkan space launch centre - where a deal is now thought likely on a proposal to run the centre jointly between the two countries. Also thought to be susceptible to compromise is a quarrel between the two states on the issue of dual citizenship for the 40 per cent of the population of Russian origin.

Radio 5 Live launched: The BBC launches Radio Five Live, its 24-hour news and sport network, backed by an extensive advertising campaign.

The new network emerged as a compromise following the bitter row created by plans to turn Radio 4 long-wave radio over to an all news network and restrict Radio 4 to FM coverage. This would have prevented Radio 4 coverage reaching continental Europe. The loss of the Radio Five sports network also raised opposition, although sports programmes are transferring to the new network.

Albanian president in London: President Sali Berisha will begin the first visit of an Albanian head of state to Britain today, nearly two years after the two countries settled a long-standing dispute over Albanian gold seized in the second world war.

FT Survey: Risk management.

29

TUESDAY

Craxi goes on trial



Former Italian prime minister Bettino Craxi goes on trial in Milan, becoming the highest ranking politician yet to face charges in the country's corruption scandals.

The trial begins a day after a general election based on a new electoral system in which three-quarters of deputies in the parliament's lower house will be elected on a first-past-the-post basis. About a fifth of the parliament's outgoing members have been involved in the corruption inquiries.

Mr Craxi, former leader of the Socialist party, is to be tried over bribes alleged to have been paid by an insurance group for contracts with Eni, the state energy concern. Mr Craxi, who denies the charges, faces a possible maximum jail sentence of five years.

Cairo talks resume: Talks resume to put the finishing touches to the deployment of Norwegian observers and Palestinian police in Hebron, where an Israeli fanatic massacred Moslems last month.

EU argues over mad cows: The UK and Germany confront each other at a meeting of EU agriculture ministers over Bonn's wish to ban British beef imports because of fear of "mad cow disease", or bovine spongiform encephalopathy (BSE). The European Commission will tell Germany that it will take legal action if it introduces a unilateral ban. Health ministers of the 12 will also discuss the BSE row on Wednesday.

Loch Ness submarine: The first submarine to take passengers on a deep dive to try to glimpse the Scottish lake's elusive monster will be launched.

Japanese retail sales: The Japanese economy may be reaching the bottom of its long downturn but retail sales remain sluggish. Figures out today are expected to show a 2.5 per cent decline in the year to February. In the year to November, the fall was 6.9 per cent. Rising unemployment is expected to limit the ability of retail sales to rebound.

Heseltine to defend takeover: Mr Michael Heseltine, UK trade and industry secretary, is to be questioned by MPs over the takeover of Newspaper Publishing, owner of The Independent and The Independent on Sunday, by a consortium backed by Mirror Group Newspapers. Mr Heseltine decided last week not to refer the deal to the Monopolies and Mergers Commission on the grounds that the papers were not economic as going concerns.

FT Survey: Rhone Alpes.

30

WEDNESDAY

Clarke meets Bank head



The monthly monetary meeting between Kenneth Clarke, chancellor of the exchequer (left), and Eddie George, governor of the Bank of England, will consider the merits of a cut in interest rates. The weakness of sterling and last week's disappointing inflation figures may point them away from a cut; however, Mr Clarke may be keen to reduce rates to offset the impact of the 1994-95 tax increases and to create some good news ahead of the May local elections.

Highways Agency born: The Highways Agency, which will take over the detailed implementation of Britain's road building and maintenance programme from the Department of Transport, comes into being. Nearly 2,500 civil servants will transfer into the agency which will pay its senior officials on a performance-related basis depending on the speed and efficiency with which they build roads. Also the Maritime Safety Agency and Coastguard Agency take over responsibility for ship safety, maritime pollution and emergency rescue services at sea.

Pensions debates: MPs will discuss personal pensions and the need for direct regulation of the private pension sector. The full-scale House of Commons debate is set to focus on concerns about the mis-selling of personal pensions to those leaving or transferring out of occupational pension schemes; and to those contracting out of the state earnings-related pension scheme. It will also cover the controversy about the right system of regulating financial services for the private investor. The government backs the planned personal investment authority - which also has the support of the Prudential, the highest UK life company - while Labour would prefer direct, statutory regulation.

EU and Lithuania talk trade: The European Union and Lithuania hold the second round of talks on a free trade agreement. It will also cover the controversy about the right system of regulating financial services for the private investor. The government backs the planned personal investment authority - which also has the support of the Prudential, the highest UK life company - while Labour would prefer direct, statutory regulation.

Japanese industrial production: The figures are expected to show a seasonally adjusted monthly rise of 2.1 per cent, compared with a 1 per cent increase in January. However, production will still be lower than it was a year ago.

Indian trade policy: India will make its annual statement on trade policy, which is likely to include further important measures to liberalise imports and exports.

FT Survey: Investing in India; Japanese Financial Markets

31

THURSDAY

CIS hears Russia's terms

The Commonwealth of Independent States' leaders come together in Moscow. Russia's proposal for a "rouble zone" is likely to be pressed once more - but the Belarussian representatives will ask why their efforts to become more closely integrated with Russia have so far been repelled.

The new members from the Caucasus, Georgia and Azerbaijan, will press Russia to settle the conflicts on their territories and in the former's case, salvage its collapsed economy. Ukraine, where elections may reveal a swing towards pro-Russian political forces, has the problem of indebtedness to Russia for energy to settle - and that of the ownership of the Black Sea Fleet.

Russia is likely to make it clear that the terms for assistance are becoming increasingly steep, and that if the countries want help, they must act as hosts to the Russian army and support the Russian political line.

Clinton's unacceptable list: The Clinton Administration plans to issue a preliminary list of what it considers unacceptable trade barriers implemented by foreign nations against American exports. On March 3 President Clinton revived the Super 301 trade policy weapon, allowing him to impose sanctions against targeted countries if they fail to dismantle barriers to American exports.

Commons recess: The House of Commons will break for Easter between March 31 and April 12.

Nicholson arraigned: Actor Jack Nicholson is scheduled to be arraigned in Los Angeles on charges stemming from an incident in which he is alleged to have smashed another driver's windshield with a golf club.

Romanian budget delay: Romania has until today to adopt a 1994 budget, otherwise, under the constitution, last year's budget will come into force. The delay is holding up a \$700m International Monetary Fund loan package.

French unemployment figures: The French government will be hoping that February's unemployment figures will show a slowdown in the rise of joblessness. Economists expect another increase, although they believe that the rate is unlikely to rise much above the current level of 12.3 per cent.

One in four young people between the ages of 16 and 25 are out of work, the highest rate in the G7 group of industrialised countries. Attempts to reduce youth unemployment, through the introduction of apprentice schemes under which 16-25 year olds can be paid less than the minimum wage, have, however, prompted widespread student demonstrations.

Air France ultimatum: Air France has given its 14 unions until today to agree to a plan to boost productivity by 30 per cent at the loss-making state-owned airline over three years.



1 Cavaliere: Silvio Berlusconi awaits the electorate's verdict

1

GOOD FRIDAY

British Rail dismantled

British Rail takes another important step towards its eventual privatisation with the handing over of BR's tracks, signalling and stations to Railtrack, a newly created company. Some 25 passenger train operating units, corresponding to BR's existing profit centres, will take over the running of trains. Three rolling stock leasing companies will be set up to lease locomotives and carriages to the train operators.

UK tax changes bite: Value added tax is imposed on domestic fuel, at 8 per cent, rising to 17.5 per cent next year, and prescription charges rise from £4.25 to £4.75, an 11.6 per cent increase. Many householders have been pre-paying their gas and electricity bills to avoid VAT.

Maghreb summit: Tunisia, Algeria, Morocco, Libya and Mauritania, who together form the Maghreb Arab Union, will hold their annual summit on April 2 and 3 in Tunis.

Hungary bids to join EU: Hungary submits its formal bid to become a full member of the EU - the first ex-Warsaw Pact state to do so.

2-4

SATURDAY - MONDAY

Brazilian election deadline

April 2 marks the final deadline for Brazilian ministers, mayors and governors to resign if they wish to run in this year's presidential, gubernatorial and congressional elections, due in October.

All eyes will be on finance minister Mr Fernando Henrique Cardoso, who has appeared undecided whether to run for president. One presidential hopeful expected to stand is Mr Paulo Maluf, mayor of Sao Paulo.

Zhirinovskiy congress: The extreme right-wing Liberal Democratic Party of Vladimir Zhirinovskiy holds its congress on Saturday. Despite the party's success in December's Russian elections, he is expected to face strong criticism for his extremist outbursts and meddling in the internal affairs of eastern European states.

UN secretary-general Boutros Boutros-Ghali will visit Russia from April 1-5.

US summer time: US clocks go forward on Sunday.

Compiled by Robert Anderson.
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ECONOMIC DIARY

Statistics to be released this week

Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Jan personal consumer expend**	-	0.4%	
Mar 28	Japan	Jan PCE - workers**	-	-0.2%	
	Japan	Jan income - workers**	-	-0.2%	
	Germany	March cost of living - Bavaria*	0.2%	0.2%	
Tue	US	Feb new home sales	715,000	895,000	
Mar 29		March consumer confidence	81.0	80.8	
		Feb export price index	-	0.7%	
		Feb import price index	-	-0.1%	
	Johnson Redbook w/e March 26		-	4.5%	
	Japan	Feb unemployment rate	-	2.7%	
	Japan	Jan coincident index	-	25%	
	Jan leading diffusion index	-	-	36.4%	
	Feb retail sales**	-2.5%	-2.4%		
	Canada	Feb end prod price index*	0.4%	flat	
	Feb raw material price index*	0.6%	2.3%		
Wed	US	Feb factory orders	-1.2%	2.1%	
March 30		Feb factory inventories	-	0.3%	
	March agriculture prices	-	flat		
	Japan	Feb industrial production	2.1%	1.0%	
	Canada	Jan fix-weighted emp earnings**	1.3%	1.4%	
	Aus/Us	Feb current account	-\$51.4bn	-\$51.26bn	
	Feb building approvals	-1.0%	6.1%		
Thur	US	Q4 GDP - final	7.3%	7.5%	
March 31		Q4 GDP deflator - final	1.3%	1.3%	
		Q4 after tax corporate profit	7.0%	0.7%	

*month on month, **year on year Statistics, courtesy MMS International

Other economic news

Monday: Monthly mortgage lending figures, released by the British Bankers' Association, will be watched for signs of the strength of the UK housing market.

Wednesday: The Bank of England will hold a £2.5bn auction of floating rate gilts, the first floating rate issue since the 1970s. Banks and building societies are expected to be the main buyers. The monthly monetary report, published to coincide with the meeting of the governor of the Bank and the chancellor of the exchequer, is largely a compendium of statistics. Nevertheless, it will be scrutinised for hints of future interest rate policy.

Thursday: Italian inflation figures, which could be published today, are expected to show an annual rise in the year to March of 4.2 per cent, unchanged from the February rate.

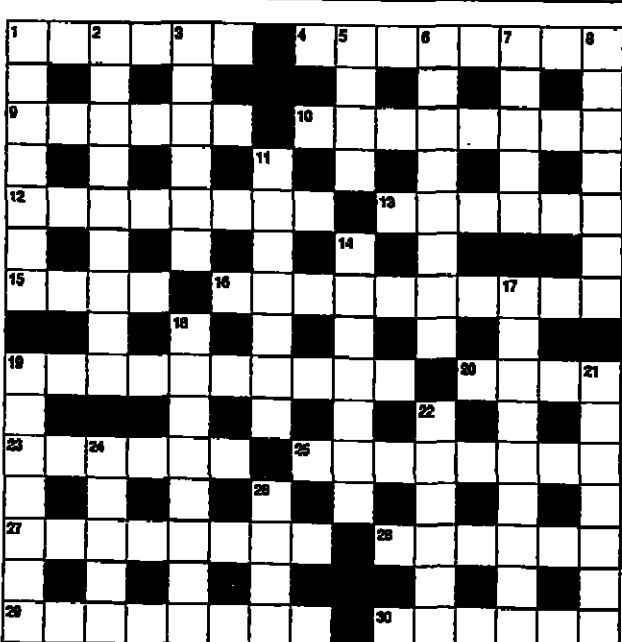
Friday: Although most markets will be closed, analysts will be watching for details of US non-farm payrolls in March. Improved weather is expected to have boosted the construction industry in March, helping payrolls to rise by 230,000. Some analysts feel, however, that February's 217,000 jump in payrolls could be revised down.

ACROSS

- Had a nibble at a piece of food, none too fresh (3,3)
- For Wagnerian hero, standard falls unexpectedly (8)
- Republic is to bring back a king (6)
- Nothing more than a captaincy for a Royal Marine (8)
- Steps outside an upper window (6)
- Where people make pots on a wheel? (6)
- You have the right of ownership (4)
- It's wet and fine at the same time (6,4)
- Bad spelling (5,5)
- Said goodbye, perhaps, but remaining (4)
- A piano note wrongly recorded (2,4)
- It enables one to raise the standard (4,4)
- The ultimate result may be to cause maiming (6)
- Dangers for those mounting ladders on board (6)
- Political favours? (8)
- Study some in deep depression (6)

DOWN

- Insect settled on the cheese for a short while (7)
- Thanks to natural evolution, it has a maddening bite (9)
- Variation of diet is foul (6)
- Cry from a small boat (6)
- Fellow feeling pity, perhaps (8)
- Plants gun at deception is required (6)
- A warning to the introvert (4,3)
- Indian food wild cat swallowed (7)
- The way Lydia moves primly (7)
- Puck is given the push in this (3,6)
- Jocular air minister? (3,5)
- Mistake a flower? (7)
- The reason he left crime (7)
- Programme information in commercial article (6)
- Emperor gave America the bird early on (5)
- Pen a note for the doctor to look at (4)



MONDAY PRIZE CROSSWORD No.8415 Set by DANTE

A prize of a Pelikan New Classic 300 fountain pen for the first correct solution opened and five running-up prizes of 25 Pelikan vouchers will be awarded. Solutions by Thursday April 7, marked Monday Crossword 8415 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 8SL. Solution on Monday April 11.

Name: _____
Address: _____

Winners 8,403
W.D. Sharp, Leamington Spa, Warwickshire
P. Adams, London SE1
Gill Anslow, Worplesdon, Surrey
S. Dunning, Blanefield, Glasgow
D. Parsons, Cyncoed, Cardiff
A.W. Walsh, St Albans, Herts

Solution 8,403

ACROSS
1 COBBLER
2 GREAT
3 DOWN
4 UPHOLSTER
5 RUGBY
6 LIFT
7 MONOTONIC
8 BEHOLD
9 DUMPLING
10 PARASOL
11 COOBYE
12 REEL
13 UAN
14 ALLOVER
15 RINGLET
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